

Discount Store News®

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July 20, 1987

Discount Chains to Post 5% Sales Gain; Membership Clubs Pace Growth in 1987

Nationwide DSN Report

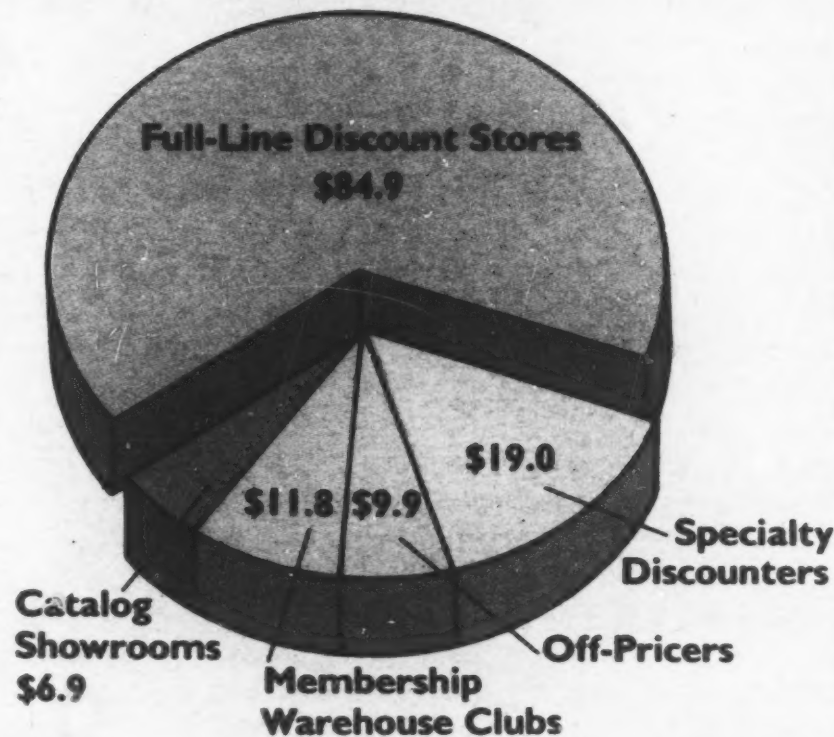
Discounters will generate \$132.5 billion in sales this year, a 5 percent increase over last year, as membership warehouse clubs and specialty chains continue to propel total industry growth.

Discount department stores, which still dominate total discount industry sales, will experience roughly a 2 percent gain in sales to \$84.9 billion, according to DSN's annual report on the discount store industry.

This year's DSN annual report, which starts on page 21, compiles 1986 sales and earnings (where available) figures on the top 100 discounters in the country, projects total 1987 industry sales by segment and merchandise category, and profiles the industry's leading chains.

(Continued on page 11)

1987 Discount Industry Segment Sales
(In Billions of Dollars)



Wal-Mart to Blitz Florida Panhandle

BENTONVILLE, Ark. — Wal-Mart will invade the Florida Panhandle with as many as 14 stores within the next 12 to 18 months, confirmed Curtis Barlowe, vice president, real estate, for the chain. Barlowe described the area as "understored since the closing of several TG&Y stores" several years ago.

Included in Wal-Mart's expansion will be a former Super Saver club and six Wal-Mart stores in Jacksonville, which already contains a Sam's Wholesale Club; three Wal-Mart stores in Pensacola; and three more Wal-Marts and a Sam's in Tallahassee.

The total of 12 Wal-Marts

and two Sam's will allow the company to "saturate this trade area," Barlowe said. He added that the first stores will open in late fall, with the bulk opening in the first quarter of 1988 and the balance planned to be completed by the end of the second quarter, conditions permitting.

In what is primarily a farming area, this large-scale opening of new stores comprises a veritable blitzkrieg, but Barlowe noted that Jacksonville, with a city-limit population of 600,000, is "a dynamic market. We want to take advantage of the singular growth opportunity this market offers," he concluded.

McDade Emerges from Ch. 11 After Creditors Approve Plan

By Laura Liebeck

CAROL STREAM, Ill. — McDade & Co., based here, emerged from Chapter 11 bankruptcy on June 30, just days shy of four months from its filing date.

It was on that date that the court approved McDade's reorganization plan calling for

its creditors to be paid 50 cents on the dollar for every dollar owed to them.

The existing company leadership, headed by Patrick Doyle Sr., president, will remain in place, Doyle told DSN.

McDade & Co., a privately held company with eight Chi-

cago-area catalog showrooms, filed for Chapter 11 protection from its creditors on March 4 in the U.S. Bankruptcy Court for the Northern District of Illinois.

McDade "is a viable business," declared company attorney Glen Bernfield, of the Chicago law firm of Pretzel &

Stouffer. "I'm very happy," said Doyle, noting that the company is coming out of this "better than we were before. It's upward from now on."

(Emergence from Chapter 11 was to become "official" on July 10, after a 10-day period for rebuttal to the reorganization plan. Attorneys for Mc-

Dade and the creditors told DSN they did not expect any hitches and considered the June 30 date McDade's official emergence from bankruptcy.)

Last year, McDade recorded sales of \$79 million, down 14 percent from the \$91.6 million charted in 1985, according to (Continued on page 11)

Venture Slices Store Size To Raise Productivity

By Richard C. Halverson

O'FALLON, Mo. — In a bid to improve sales per square foot and cut store operating costs, Venture is experimenting with a smaller, high profile prototype.

The prototype, which opened last month in Oklahoma City on Rockwell Avenue, is the fourth Venture store in that fairly small market. The Rockwell store, converted from an existing store in a strip mall, is just 65,000 square feet in size, or 19 percent smaller than Venture's recent standard size of 80,000 square feet.

The Rockwell store represents another step in Venture's trend toward building smaller stores. Five years ago, the standard was 116,000 square feet, said a Venture executive, and some stores were

built at 100,000 square feet and 90,000 square feet before Venture settled on the 80,000-square-foot prototype.

In addition to the new size, the smaller store also continues Venture's break with its tradition of low, profile merchandising.

For about a year and a half, Venture has shifted to high profile stores in order to display more merchandise in a smaller space, said Jim Coughill, divisional vice president for sales promotion.

In the case of the Rockwell store, the total volume of goods has been reduced, even though the same assortment of merchandise has been kept. Venture accomplished that by adding spines to gondolas to push them to a height of 84 inches from a traditional Ven-

(Continued on page 173)

Unit Features Hard Lines Scanning

Fred Meyer Opens Prototype

By Pamela Krein

MARYSVILLE, Wash. — Fred Meyer, the Portland, Ore.-based chain of 94 superstores in the Pacific Northwest, unveiled a new store format here this month that allows customers to purchase both grocery and hard lines products from the same checkout area.

The first of four stores planned this year, the new Marysville unit is also the first store in the chain with the capability of slot scanning hard lines merchandise.

Typically, Fred Meyer stores are laid out in segmented departments with separate register (Continued on page 174)



Fred Meyer's new store is the first in the chain capable of slot scanning hard lines products and allows shoppers to pay for both grocery and hard lines items at a common checkout. (DSN photo)

Special Sizes Smur

REGIONAL INFOR SVC 1JA
4520 EAST-WEST HIGHWAY
BETHESDA MD 20814

RTA Furniture

Auto Specialists

Gains Fashion Edge

Take Market Share

MARKETWATCH

Gold Circle Layoffs Exaggerated

WORTHINGTON, Ohio — Gold Circle chairman Peter Hayes told DSN that local newspapers incorrectly reported news of chainwide layoffs. While it is true that over 100 positions will be eliminated at Gold Circle, Hayes said most of the people affected have been absorbed within the company. No more than 10 employees to 20 employees at the clerical to middle management level were fired, Hayes said. Local newspapers stated that 100 employees were losing their jobs. The "restructuring," according to Hayes, was meant to "devote efforts to buying rather than clerical work," and to "develop customer service in stores by elimination of positions at headquarters."

Mars Reports First Quarter Loss

NORTH DIGHTON, Mass. — Mars Stores, the 20-store discount chain headquartered here, reported a net loss of \$514,000 on sales of \$20.4 million for the first quarter ended May 2. Mars president Paul Kwasnick blamed the loss on unseasonably chilly weather and intense price competition in the Northeast, but added, "We are pleased with the progress we have made towards restoring Mars to profitability . . . we plan to earn a profit for the year." He pointed to rectification of an inventory shrinkage problem, higher gross margin percentage, new promotional programs and an "improved circular format" as examples of the company's progress.

Bi-Mart Signs Leases for 3 New Sites

EUGENE, Ore. — Bi-Mart has signed leases for three new stores in Oregon, pushing the members-only discount store chain to 37 units. The chain, which provides discounted general merchandise and pharmacy prescriptions to consumer members in small communities, said all three stores are 30,000 square feet and are located in Covallis, East Tigard and Lincoln City. The subsidiary of Seattle-based Pay 'n Save said the three locations will be in operation by the first of next year. "The new stores are in response to customer demand for Bi-Mart facilities closer to their communities," said company president Marty Smith. A high membership percentage already exists in the three Oregon markets, noted Smith, so the additional stores are intended to making shopping more convenient. The company is also slating the opening of two other stores next year, one in Sunnyside, Wash., and one in La Grande, Ore.

Housewares Exec Buys Mr. Coffee

CLEVELAND — North American Systems, makers of Mr. Coffee, was acquired for an undisclosed price in a leveraged buyout by New York securities firm McKinley Allsopp and John Eikenberg, a longtime housewares industry executive, on July 2. Eikenberg is a former president of the National Housewares Manufacturers Association, chief operating officer of Cuisinart, and most recently, president of National Housewares Inc., a Towle Manufacturing company. He is now president and ceo of the 19-year-old firm, headquartered here, and plans to rename the company Mr. Coffee Inc., said Martha Logan, a vp at McKinley Allsopp. Mr. Coffee, which recorded \$120 million in sales last year, was founded by Vincent G. Marotta Sr., who invented the coffee-making machine in 1968. He is retiring from the firm.

She's Just a Discount Shopper

NEW YORK — Tammy Faye, the wife of embattled TV evangelist Jim Bakker, claimed that she has been getting a bum rap as one of the nation's most famous shoppers, whose tastes run to gold-plated bathroom fixtures, air-conditioned dog houses, fur coats and luxury cars. Instead she's a discount shopper, she asserted. Appearing with her husband last month on Ted Koppel's "Nightline," Tammy Faye admitted that she is a compulsive shopper. But "I don't shop for cars or furs," she contended. "I shop at T.J. Maxx. I shop at factory outlets."

American Wholesale Invades Windy City with Two Clubs

By Peter Hisey
RICHARDSON, Tex. — American Wholesale Club, the membership warehouse operation headquartered here, announced the impending openings in late August of its third and fourth locations, representing the chain's first venture outside its home Texas market.

Both units will be in the suburbs of Chicago, one in Arlington Heights and the other in Lombard. Both will be subleased from and are former locations of the Warehouse Club chain, which closed them down on April 1 of this year. Warehouse Club will retain its other three Chicago sites.

The Chicago market has been a trouble spot for Zayre-owned BJ's, which purchased three clubs from Metro Cash and Carry. The latest Zayre annual report blamed most losses in its wholesale club segment on preopening expenses and poor performance by the Chicago-area BJ's.

American Wholesale Club president Jeffrey Zisk called the Chicago market "open territory." He noted other major markets, such as Los Angeles and Denver, as far more saturated, and singled out Los Angeles as supporting 20 clubs doing "large volumes."

By contrast, Chicago at present has only six clubs selling small volumes, Zisk said.



Jeffrey Zisk (left), president, and Richard Palmer, exec vp, at American Wholesale Club's original unit in Plano, Tex.: Chicago is "open territory" for membership clubs. (DSN photo)

"Marketing is the key, and we're going to use the marketing plans we've been successful with," he said, referring to the process of signing up small business owners as club members. He added that the company's Mesquite, Tex., club, opened in May, is "ahead of where [flagship club] Plano was at the same time in its development."

Asked why he expects to be successful in a market that has been less than dazzled by the warehouse concept, Zisk cited his company's expertise in marketing and merchandising. "There are recognizable

differences within any industry," he said. "There's always one company that is more successful. If we're successful, it could stimulate the whole area and raise awareness of the concept."

American Wholesale, which opened its first unit in June of 1986, will now have quadrupled its business in a little over a year, about average for this fast-moving industry. According to the company, the two new stores will not differ significantly from its 105,000-square-foot Texas locations, although there may be minor variations in products.

DSN Expands Editorial Staff to 13



NEW YORK — DSN executive editor Tony Lisanti has announced the addition of Laura Liebeck as a senior editor on DSN's editorial staff.

Liebeck comes to DSN from National Home Center News, which like DSN is published by Lebar-Friedman, where she was an associate editor. She joined NHCN in September 1984 as a field editor, after spending three years as a general assignment reporter and business editor for the Marietta

Daily Journal/Neighborhood Newspaper, in suburban Atlanta. Liebeck was graduated from American University, Washington, D.C., in December 1978 with a BA degree in journalism.

Liebeck, who reports to managing editor Donald Longo, will supervise DSN's coverage of hard lines.

DSN now has 13 editors covering discount retailing out of offices in New York City, Washington and Los Angeles.

DSN 25th ANNIVERSARY

TRIVIA QUIZ

As part of its 25th anniversary, DSN is offering a \$100 prize to the person who correctly answers the most questions. Please type your answers, along with your name, address and telephone number, on standard letterhead, and

mail to: Quiz Editor—7/20, Discount Store News, 425 Park Ave., New York, N.Y. 10022. Winners will be announced in a future issue. Correct answers to questions below appear somewhere else in this issue.

25 Years Ago This Week:

Premature Death: A manufacturer pronounced non-stick cookware "dead."

1. A DSN editorial predicted the next discount "mutation" would be:

- a) Warehouse clubs;
- b) Electronic shopping;
- c) Catalog showrooms.

20 Years Ago This Week:

Buyer: Discount shoppers were more likely to buy what they came for than department store shoppers, said a poll.

2. What Midwest chain planned to go public?

- a) Dayton Co.;
- b) Gold Circle;
- c) Hill's.

25
25th ANNIVERSARY YEAR

10 Years Ago This Week:

Room at the Top: 11 discount store chains had named new presidents over the past 10 months.

3. Zayre Corp. opened what subsidiary in Worcester, Mass.?

- a) Hit or Miss;
- b) BJ's;
- c) T.J. Maxx.

5 Years Ago This Week:

A Bunch of Old Softies: Five catalogers added domestics to their all hard lines mix.

4. What major retailer was mulling over establishment of an off-price apparel chain?

- a) Zayre;
- b) Dayton Hudson;
- c) K mart.

1 Year Ago This Week:

Merger: May's bid to acquire Caldor from Associated Dry Goods shakes up the market.

5. Much of the year's 9 percent growth was due to what industry segment?

- a) Electronic shopping;
- b) Warehouse clubs;
- c) Catalog showrooms.

INDEX

Adwatch	19
Apparel	123
Calendar of Events	160
Classified	163
Discount Industry Annual Report	21
Top 100 Discount Chains	27
Leading Specialty Discounters	35
Leading Chain Profiles	78
Merchandising Reports	123
Editorial	6
Executive Changes	14
Home Products	130
Hard Lines	143
Prevention Pays	17
Stock Update	172

Annual Industry Report

Top Chains, Membership Clubs, Specialty Retailers to Propel Discounters' Sales to \$132.5 Billion

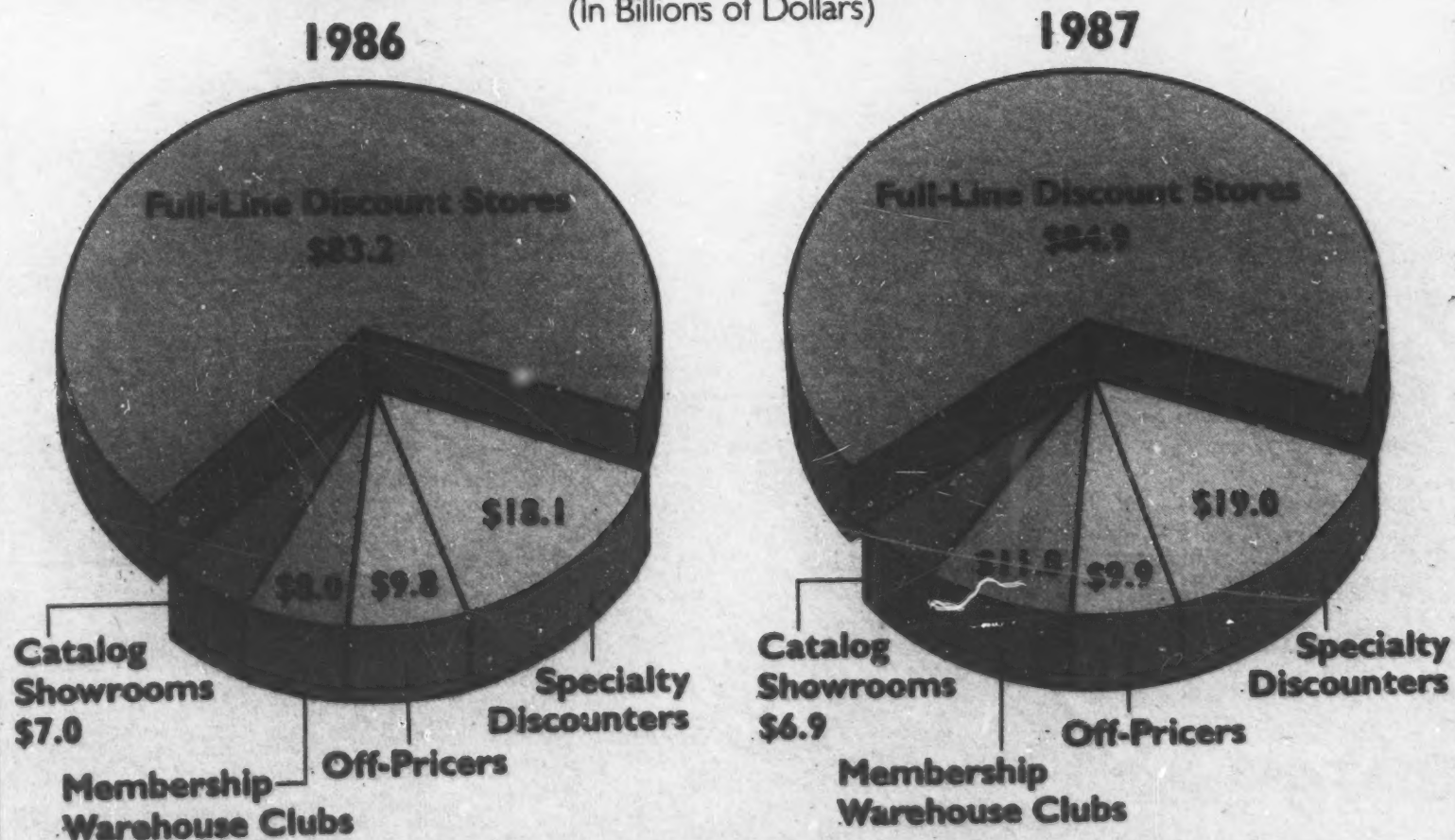


Ladies', men's and children's wear will generate \$24.9 billion in sales for full-line discount stores this year, according to DSN research.

(DSN photo)

Discount Industry Segment Sales

(In Billions of Dollars)



Discounters will ring up \$132.5 billion in sales this year, a 5 percent increase over 1986, as warehouse clubs and specialty chains continue to propel total industry growth.

DSN's Annual Discount Industry Report

Top 20 Full-Line Discounters Garner 13% Gain	22
DSN's Top 100 Discount Chains	27
The Biggest and Fastest Growing Discounters	28
The Top 20 Specialty Retailers	30
The Billion Dollar Club	31
Warehouse Clubs: Explosive Growth	35
Automotive Chains: Highly Volatile Year	36
CE Chains: Competition Boils	39
Toy Chains: Industry Leader Pads Lead	39
Off-Pricers: Top Apparel Chains Restructure	40
Sporting Goods Specialists: Merger Mania	40
Catalog Showrooms: Regionals Prosper	75
Top Discounters: From K mart to Gold Circle	78-120
Apparel: Ladies' Wear	123
Men's/Boys' Wear	125
Jewelry	127
Home Products: Housewares	130
Consumer Electronics	135
Domestics	136
Hard Lines: Automotives	143
Toys	144
Hardware	147
Sporting Goods	148
Health & Beauty Aids	150
Photo	152
Stationery	153

DISCOUNT INDUSTRY ANNUAL REPORT

Top 20 Discounters' Sales Grow 13%

Nationwide DSN Report

The nation's top 20 full-line discount department stores outpaced total industry growth last year as sales for these giant discounters surpassed \$56 billion, a gain of some 13 percent over 1985. Total discount industry sales increased about 9 percent in 1986 and are projected to climb another 5 percent this year to \$132.5 billion, according to DSN's annual report on the discount industry.

Overall, full-line discount department stores are expected to post a more modest gain of about 2 percent to sales of \$84.9 billion, reflecting continued consolidation among the top chains and rough sledding for many of the industry's second-tier chains, such as ALCO Stores (sales down 5 percent), Gee Bee (down 12 percent), Danners (down 6 percent and subsequently acquired by Maxway this year), and Cook United (down 22 percent and in Chapter 11 for the second time in two years).

But whatever sales were lost by these mid-sized discount store chains were more than made up by the industry's giants:

- K mart's 2,086 U.S. and 118 Canadian units led the discount store industry in sales last year with \$22.1 billion, up 6.3 percent from \$20.8 billion in volume in 1985. This gain was paced by the 5.5 percent increase in same store volume last year as compared to a 0.4 percent drop in 1985.

- Widely admired as one of the strongest companies in any category of retailing, Wal-Mart was the pacesetter in growth among the indus-

(Continued on page 30)

Top Full-Line Discounters

Chain	Sales (In Millions)		Percent Change
	1986	1985	
K mart	\$22,107	\$20,775	6%
Wal-Mart	10,200	7,674	33
Target	4,355	3,932	11
Zayre	3,046	2,638	15
Bradlees	1,900	1,600	17
Ames	1,888	1,513	25
Caldor	1,411	1,338	5
Meijer	1,400	1,200	17
Hills	1,343	1,214	11
Rose's	1,199	1,009	19
Venture	1,100	1,004	10
Fred Meyer	1,074	1,004	7
Gold Circle	969	1,058	(9)
ShopKo	915	754	21
Fedco	650	555	17
Jamesway	612	542	13
Heck's	566	523	8
Dollar General	565	584	(3)
Alexanders	520	520	0
Pamida	500	460	10

Figures are for general merchandise sales only.

Source: DSN research

Discounter Apparel Sales to Total \$24.9B

Nationwide DSN Report

Apparel will continue to be the leading volume category for full-line discount department stores this year. Taken together, ladies', men's and children's wear will generate \$24.9 billion in sales by year-end, according to DSN research.

On average, full-line discounters will devote some 17,800 square feet of selling space to these apparel categories,

which will generate roughly 20 percent of total full-line discount store sales.

In home products, housewares products, including personal care, small electrics, non-electrics and RTA furniture, will be the leading volume category. Full-line discounters are expected to total \$11.4 billion in housewares this year, while devoting an average of about 7,450 square

feet of selling space per store to the category. Consumer electronics is expected to chip in another \$6.3 billion at full-line discount stores.

Hardware, including paint, will generate the largest sales figure, \$6.7 billion, in full-line discounters' hard lines area. Automotives will add another \$5.5 billion, while health & beauty aids will contribute \$5.9 billion to full-line discount stores' sales this year.

Full-Line Discount Store Productivity

Category	Discount Volume (In Billions)	Sales Per Store (In Thousands)	Dept. Size (In Sq. Ft.)	Annual Sales/ Sq. Ft.	Annual Turns	Percent Initial Markup	Percent Gross Margin
Ladies' Wear	\$15.8	\$1,948	10,000	\$195.00	4.5	47.4%	31.3%
Housewares*	11.4	1,405	7,450	188.59	3.5	35.0	24.8
Men's/Boys' Wear	9.1	1,122	7,800	143.85	3.7	44.5	34.2
Hardware**	6.7	825	4,400	187.70	2.5	41.8	32.7
Consumer Electronics	6.3	776	2,300	337.65	3.3	30.0	17.2
Health & Beauty Aids	5.9	727	3,200	227.28	5.0	25.0	19.3
Automotives	5.5	678	2,400	282.50	2.8	33.8	25.2
Toys	4.6	567	2,560	221.48	2.9	37.0	27.2
Sporting Goods	4.0	493	2,500	197.20	2.0	37.2	28.5
Domestics	3.7	456	3,150	144.80	2.5	44.2	35.0
Photo	3.3	406	675	602.65	3.1	25.3	18.0
Stationery	2.4	295	1,875	157.76	3.5	47.0	41.6
Jewelry	1.7	209	650	322.30	2.1	49.2	40.5

*Includes personal care, small electrics, non-electrics and RTA furniture.

**Includes paint.

Note: Other categories totaled \$9.7 billion.

Source: DSN research

The Top 100
ALCO to Zayre

Chain, Headquarters	1986 Rank
ALCO	1
Alamo	2
Ames	3
Ames	4
Ames	5
Ames	6
Ames	7
Ames	8
Ames	9
Ames	10
Ames	11
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Ames	95
Ames	96
Ames	97
Ames	98
Ames	99
Ames	100

Source: DSN research

The Discount Industry's Top 100 Chains

1986	1985	Chain, Headquarters	Sales (In Millions)		Percent Change	Earnings (Loss) (In Millions)		Percent Change	Store Count		
			1986	1985		1986	1985		1/87	1/86	Proj. 12/87
1	1	Wal-Mart, Troy, Mich.	22,107	20,775	6	1,311 ¹	1,058 ¹	24	2,204	2,180	2,244
2	2	Wal-Mart, Bentonville, Ark.	10,200	7,674	33	846 ¹	604 ¹	40	980	859	1,100
3	3	Target, Minneapolis, Minn.	4,355	3,932	11	311 ¹	278 ¹	12	246	226	319
4	4	Zayre, Framingham, Mass. ²	3,046	2,638	15	130	142	(8)	362	337	387
5	8	Price Club, San Diego, Calif.	2,590	1,834	41	59	46	28	34	24	39
6	5	Service Merchandise, Nashville, Tenn.	2,527	2,244	13	(34) ¹	32 ¹	—	300	287	314
7	7	Toys "R" Us, Rochelle Park, N.J.	2,270	1,840	23	152	120	27	295	246	370
8	6	Best Products, Richmond, Va.	2,142	2,234	(4)	(26)	2	—	194	213	101
9	9	Bradlees, Braintree, Mass.	1,900	1,600	19	57 ¹	31 ¹	84	162	157	172
10	10	Ames, Rocky Hill, Conn.	1,888	1,513	25	54 ¹	72 ¹	(25)	321	306	348
11	22	Sam's, Bentonville, Ark.	1,678	775	117	NA	NA	—	49	23	84
12	11	Caldor, Norwalk, Conn.	1,411	1,338	5	75 ¹	90 ¹	(17)	114	109	118
13	12	Marshalls, Wakefield, Mass.	1,409	1,324	6	NA	NA	—	261	236	286
14	20	Meijer, Grand Rapids, Mich.	1,400	1,200	17	NA	NA	—	53	54	NA
15	13	Hills, Canton, Mass.	1,343	1,214	11	94 ¹	74 ¹	27	136	125	150
16	16	Ross's, Henderson, N.C.	1,199	1,009	19	24 ¹	20 ¹	18	222	204	240
17	19	Pay Less, Wilsonville, Ore.	1,123	1,003	12	NA	NA	—	218	183	246
18	17	Venture, O'Fallon, Mo.	1,100	1,004	10	80 ¹	58 ¹	38	65	62	69
19	21	T.J. Maxx, Framingham, Mass.	1,080	782	38	52 ³	44 ³	18	226	191	266
20	18	Fred Meyer, Portland, Ore.	1,074	1,004	7	23	19	16	93	93	97
21	25	Circuit City, Richmond, Va.	1,011	705	43	35	22	60	87	70	109
22	15	Gold Circle, Worthington, Ohio	969	1,058	(8)	32 ¹	39 ¹	(18)	76	76	76
23	23	ShopKo, Green Bay, Wis.	915	754	21	NA	NA	—	65	58	75
24	24	Western Auto, St. Louis, Mo. ⁴	857	725	18	10	NA	—	2,049	2,269	2,032
25	49	Costco, Seattle, Wash.	747	367	104	5	2	148	38	21	50
26	30	Highland, Taylor, Mich.	656	520	26	20	23	(11)	53	40	73
27	27	Fedco, Santa Fe Springs, Calif.	650	555	17	NA	NA	—	9	8	NA
28	35	Herman's, Carteret, N.J.	630	420	50	NA	NA	—	200	131	230
29	31	Child World, Avon, Mass.	629	513	23	11	9	17	134	121	149
30	28	Jamesway, Secaucus, N.J.	612	542	13	12	9	30	101	91	116
31	55	PACE, Denver, Colo.	603	275	119	(1)	(8)	—	25	16	33
32	32	Silo, Pittsburgh, Pa.	600	500	20	NA	NA	—	119	111	160
33	33	Heck's, Nitro, W. Va.	566	523	8	(18)	(0)	—	172	166	129
34	26	Dollar General, Scottsville, Ky.	565	584	(3)	4	18	(76)	1,339	1,278	1,400
35	40	Ross Stores, Newark, Calif.	534	376	42	NA	NA	—	121	107	131
36	29	Alexanders, New York, N.Y.	520	520	0	4	NA	—	14	15	14
37	34	Pamida, Omaha, Neb.	504	460	10	NA	NA	—	167	160	170
38	67	BJ's Wholesale Club, Framingham, Mass.	499	249	100	NA	NA	—	16	8	21
39	NR	Shuck's Auto, Phoenix, Ariz.	490	385	27	NA	NA	—	500	475	NA
40	36	Family Dollar, Charlotte, N.C.	488	410	19	31	28	9	1,107	920	1,280
41	37	Kay Bee, Lee, Mass.	487	401	21	NA	NA	—	639	584	694
42	39	Pep Boys, Philadelphia, Pa.	485	389	25	28	21	33	177	159	212
43	44	Lechmere, Woburn, Mass.	476	349	36	20	20 ¹	(2)	17	10	23
44	41	The Federated Group, City of Commerce, Calif.	430	364	18	(5)	11	—	65	59	65
45	80	Consolidated Stores, Columbus, Ohio	397	181	119	20	12	63	219	115	300
46	43	Burlington Coat, Burlington, N.J.	382	343	11	NA	NA	—	87	NA	100
47	NR	Auto Shack, Memphis, Tenn.	365	270	35	NA	NA	—	386	307	NA
48	59	Crazy Eddie, Edison, N.J.	353	262	34	11	13	(20)	32	23	40
49	45	Loehmann's, Bronx, N.Y.	351	322	9	NA	NA	—	90	81	NA
50	50	Hit or Miss, Braughton, Mass.	345	310	11	NA	NA	—	461	428	501
51	42	ALCO, Abilene, Kan.	344	363	(5)	(3)	NA	—	148	150	150
52	46	Consumers Distributing, Edison, N.J.	328	312	5	1	(2)	—	90	89	95
53	47	Oshman's, Houston, Tex.	323	312	4	8 ¹	9 ¹	(9)	214	209	NA
54	48	S.E. Nichols, New York, N.Y.	319	310	3	2	4	(47)	45	44	46
55	52	OTASCO, Tulsa, Okla.	309	288	7	NA	NA	—	575	579	NA
56	54	Pic 'N Save, Carson, Calif.	305	278	10	40	41	(3)	101	94	121
57	78	Price Savers, Salt Lake City, Utah	300	200	50	NA	NA	—	6	5	12
58	51	Makro, Cincinnati, Ohio	300	240	25	NA	NA	—	4	4	4
59	57	Glover, Philadelphia, Pa.	300	273	10	NA	NA	—	21	20	21
60	58	Yabco City, Columbus, Ohio	292	265	10	NA	NA	—	38	38	NA
61	63	Fisher's Big Wheel, New Castle, Pa.	290	245	18	NA	NA	—	81	81	NA
62	62	Lionel Leisure, Philadelphia, Pa.	283	246	15	9	2	358	65	52	80
63	68	Fretter, Livonia, Mich.	273	214	28	NA	NA	—	45	39	55
64	NR	Tops Appliances, Edison, N.J.	260	185	41	NA	NA	—	2	2	2
65	70	Chief Auto, Dallas, Tex.	256	246	4	NA	NA	—	485	466	NA
66	NR	Super Saver, Houston, Tex. ⁵	254	77	230	(18)	(7)	—	30	9	0
67	69	Filem's, Wallingford, Conn.	252	213	18	NA	NA	—	22	17	22
68	56	TSS-Soodman's, Brooklyn, N.Y.	252	240	5	NA	(2)	—	18	19	18
69	66	Ann & Hope, Providence, R.I.	250	215	16	NA	NA	—	7	6	7
70	61	State United, Secaucus, N.J.	240	255	(6)	NA	NA	—	237	255	337
71	65	Syms, Lynhurst, N.J.	240	255	(6)	NA	NA	—	17	15	NA
72	NR	Best Buy, Minneapolis, Minn.	239	113	112	8	4	93	23	16	40
73	64	BI-Mart, Eugene, Ore.	236	232	2	1 ¹	3 ¹	(70)	36	33	NA
74	75	Audio-Video Affiliates, Dayton, Ohio	229	182	26	8	8	0	106	78	131
75	NR	Fortunoff, Westbury, N.Y.	223	200	12	NA	NA	—	3	3	3
76	86	Newmark & Lutz, Philadelphia, N.Y.	214	142	51	6	4	50	34	25	42
77	74	Brands, Fitch, N.C.	211	197	7	7	7	8	35	31	42
78	72	Nationwide, Columbus, Ohio	200	175	14	NA	NA	—	174	160	200
79	68	Cook United, Maple Heights, Ohio	200	257	(22)	NA	(31)	—	41	49	3
80	NR	The Wiz, New York, N.Y.	200	168	19	NA	NA	—	19	17	20
81	77	Big Five, Los Angeles, Calif.	190	175	9	NA	NA	—	94	89	NA
82	76	Hartz, Columbus, Ohio	187	181	3	9	9	6	28	27	35
83	84	Rich's, Salem, Mass.	185	156	18	3	NA	—	19	17	22
84	NR	Trak Auto, Landover, Md.	183	144	27	1	1	63	245	212	NA
85	87	Dress Barn, Stamford, Conn.	175	135	30	NA	NA	—	235	NA	300
86	79	Grand Auto, Oakland, Calif.	166	168	(1)	0	3 ¹	(96)	121	113	NA
87	73	Geo. Bee, Johnstown, Pa.	162	185	(12)	4	NA	—	21	21	22
88	91	ClothesTime, Anaheim, Calif.	161	127	27	NA	NA	—	263	NA	NA
89	NR	American TV, McLean, Va.	160	151	6	NA	NA	—	6	6	6
90	NR	The Wholesale Club, Indianapolis, Ind.	158	76	108	NA	NA	—	11	5	16
91	NR	Warehouse Club, Niles, Ill.	157	89	76	NA	NA	—	14	7	12
92	81	Danners, Indianapolis, Ind. ⁶	150	160	(6)	(19)	(1)	—	18	35	0
93	NR	Greenman Bros., Farmingdale, N.Y.	150	110	36	NA	NA	—	310	304	341
94	NR	Whitlock, Des Plaines, Ill.	150	115	30	NA	NA	—	177	162	NA
95	82	Quality Stores, N. Muskegon, Mich.	149	160	(7)	NA	NA	—	42	42	48
96	95	Smiley's, Phoenix, Ariz.	145	124	17	NA	NA	—	15	15	NA
97	NR	Auto World, Pontiac, Mich.	145	127	14	NA	NA	—	226	176	NA
98	89	Spartan, Niles, Ill.	141	129	9	NA	NA	—	12	12	15
99	90	Francia Way, Green Bay, Wis.	140	128	9	NA	NA	—	30	20	20
100	NR	Luzon's, Madison, Wis.	140	110	27	NA	NA	—	54	53	58

Some percentages based on actual numbers before rounding

Sales represent general merchandise sales only; excluding supermarket sales

NR-not ranked

NA-not available

¹Earnings represent profit or loss from continuing operations, before income taxes and extraordinary items

²Sales figures include Zayre discount stores only

³Includes Hit or Miss and Chadwick's of Boston

⁴Includes company-owned stores and wholesale sales to franchisers

⁵Acquired by Wal-Mart in June 1987

⁶Acquired by Maxway in April 1987

DISCOUNT INDUSTRY ANNUAL REPORT

The Leading Discount Chains

Sales Volume Leaders

Chain, Headquarters	Sales (In Millions)		Percent Change
	1986	1985	
Wal-Mart, Bentonville, Ark.	10,200	7,674	33
K mart, Troy, Mich.	22,107	20,775	13
Sam's, Bentonville, Ark.	1,678	775	903
Zayre, Framingham, Mass.	3,046	2,638	15
Price Club, San Diego, Calif.	2,590	1,834	756
Target, Minneapolis, Minn.	4,355	3,932	423
Service Merchandise, Nashville, Tenn.	2,527	2,244	13
Best Buy, Minneapolis, Minn.	239	113	112
Best Products, Richmond, Va.	2,142	2,234	(4)
Ames, Rocky Hill, Conn.	1,888	1,513	25
Marshall's, Wakefield, Mass.	1,409	1,324	6
Meijer, Grand Rapids, Mich.	1,400	1,200	17
Hills, Canton, Mass.	1,343	1,214	11

Profit Leaders (Net or Operating Income)

Chain, Headquarters	Earnings (Loss) (In Millions)		Percent Change
	1986	1985	
K mart, Troy, Mich.	131.0	105.0	24
Wal-Mart, Bentonville, Ark.	846.0	603.6	40
Target, Minneapolis, Minn.	311.0	277.8	12
Toys "R" Us, Rochelle Park, N.J.	152.2	119.8	27
Zayre, Framingham, Mass.	129.9	141.9	(8)
Hills, Canton, Mass.	94.4	74.1	27
Yonkers, N.Y.	80.0	58.0	38
Caldor, Norwalk, Conn.	75.0	90.0	(17)
Price Club, San Diego, Calif.	58.7	46.0	28
Bradlees, Braintree, Mass.	56.6	30.7	84
Ames, Rocky Hill, Conn.	54.3	72.4	(25)
T. J. Maxx, Framingham, Mass.	52.2	44.2	18
Pic 'N Save, Carson, Calif.	39.8	41.1	(3)
Circuit City, Richmond, Va.	35.3	22.0	60
Gold Circle, Worthington, Ohio	31.8	39.0	(18)

Store Count Leaders

Chain, Headquarters	Store Count		
	1/87	1/86	Proj. 12/87
K mart, Troy, Mich.	2,204	2,180	2,244
Western Auto, St. Louis, Mo.	2,049	2,269	2,032
Dollar General, Scottsville, Ky.	1,339	1,278	1,400
Family Dollar, Charlotte, N.C.	1,107	920	1,280
Wal-Mart, Bentonville, Ark.	980	859	1,100
Kay Bee, Lee, Mass.	639	584	694
OTASCO, Tulsa, Okla.	575	579	NA
Shuck's Auto, Phoenix, Ariz.	500	475	NA
Chief Auto, Dallas, Tex.	485	466	NA
Hit or Miss, Stoughton, Mass.	461	428	501
Auto Shack, Memphis, Tenn.	386	307	NA
Zayre, Framingham, Mass.	362	337	387
Ames, Rocky Hill, Conn.	321	306	348
Greenman Bros., Farmingdale, N.Y.	310	304	341
Service Merchandise, Nashville, Tenn.	300	287	314

Selling Space Leaders

Chain, Headquarters	Total Footage (In 000 Sq. Ft.)	Number of Stores 1/87	Average Store Size (In 000 Sq. Ft.)
	1/87		
K mart, Troy, Mich.	132,700	2,204	60
Wal-Mart, Bentonville, Ark.	63,300	980	65
Target, Minneapolis, Minn.	24,260	246	99
Zayre, Framingham, Mass.	19,235	362	53
Ames, Rocky Hill, Conn.	16,300	321	51
Pay Less, Wilsonville, Ore.	11,200	218	51
Caldor, Norwalk, Conn.	10,744	114	94
Fred Meyer, Portland, Ore.	9,212	93	99
Hills, Canton, Mass.	8,872	136	65
Toys "R" Us, Rochelle Park, N.J.	8,500	295	29
Gold Circle, Worthington, Ohio	8,259	76	109
Rose's, Henderson, N.C.	8,160	222	37
Marshall's, Wakefield, Mass.	7,980	261	31
Family Dollar, Charlotte, N.C.	7,749	1,107	7
Dollar General, Scottsville, Ky.	7,500	1,339	6

The Fastest Growing Discount Chains

Top 10 in Dollar Sales Growth

Chain, Headquarters	Sales (In Millions)		Dollar Sales Growth
	1986	1985	
Wal-Mart, Bentonville, Ark.	10,200	7,674	2,526
K mart, Troy, Mich.	22,107	20,775	1,332
Sam's, Bentonville, Ark.	1,678	775	903
Price Club, San Diego, Calif.	2,590	1,834	756
Toys "R" Us, Rochelle Park, N.J.	2,270	1,840	430
Target, Minneapolis, Minn.	4,355	3,932	423
Zayre, Framingham, Mass.	3,046	2,638	408
Costco, Seattle, Wash.	747	367	380
Ames, Rocky Hill, Conn.	1,888	1,513	375
PACE, Denver, Colo.	603	275	328

Top 10 in Percentage Sales Growth

Chain, Headquarters	Sales (In Millions)		Percent Change
	1986	1985	
Super Saver, Monroe, La.	254	77	230
Consolidated Stores, Columbus, Ohio	397	181	119
PACE, Denver, Colo.	603	275	119
Sam's, Bentonville, Ark.	1,678	775	117
Best Buy, Minneapolis, Minn.	239	113	112
The Wholesale Club, Indianapolis, Ind.	158	76	108
Costco, Seattle, Wash.	747	367	104
BJ's Wholesale Club, Framingham, Mass.	499	249	100
Warehouse Club, Niles, Ill.	157	89	76
Newmark & Lewis, Hicksville, N.Y.	214	142	51

Top 10 in Earnings Growth

Chain, Headquarters	Earnings (Loss) (In Millions)		Percent Change
	1986	1985	
Lionel Lerner, Philadelphia, Pa.	2.7	1.9	358
Costco, Seattle, Wash.	4.5	1.8	148
Best Buy, Minneapolis, Minn.	7.7	1.0	93
Bradlees, Braintree, Mass.	56.6	30.7	84
Best Buy, Minneapolis, Minn.	1.3	0.8	63
Consolidated Stores, Columbus, Ohio	19.5	12.0	63
Circuit City, Richmond, Va.	35.3	22.0	60
Newmark & Lewis, Hicksville, N.Y.	5.7	3.8	50
Family Dollar, Dallas, Tex.	3.6	2.5	44
Wal-Mart, Bentonville, Ark.	846.0	603.6	40

Top 10 in Store Count Growth

Chain, Headquarters	Store Count		Number of New Units
	1/87	1/86	
Family Dollar, Charlotte, N.C.	1,107	920	187
Wal-Mart, Bentonville, Ark.	980	859	121
Consolidated Stores, Columbus, Ohio	219	115	104
Auto Shack, Memphis, Tenn.	386	307	79
Harvey's, Carlisle, N.J.	200	131	69
Dollar General, Scottsville, Ky.	1,339	1,278	61
Kay Bee, Lee, Mass.	639	584	55
Auto World, Pontiac, Mich.	226	176	50
Toys "R" Us, Rochelle Park, N.J.	295	246	49
Pay Less, Wilsonville, Ore.	218	183	35

NA— not available

Source: DSN research

DISCOUNT INDUSTRY ANNUAL REPORT

Top 20 Discounters Increase 13% to \$56B

(Continued from page 22)

try's elite. Last year, sales at Wal-Mart's 7,674 discount stores climbed 33 percent to \$10.2 billion. Its Sam's Wholesale Club division joined the billion dollar club and is poised to pass the long-time membership club leader Price Club this year. And Wal-Mart cemented its reputation as one of the most innovative retailers with the planned rollout of two new hypermarket formats this year.

- Target's sales rose 11 percent last year, as its parent, Dayton Hudson Corp., acquired over 78 Gemcos from Lucky Stores for about \$440 million in late 1986. In addition to beefing up Target's presence in the Southern California market, the Gemco-converted stores also give Target a chance to enter the San Francisco Bay Area and the state's Central Valley region.

The upscale retailer is also scheduled to open three stores in Las Vegas and six stores in metropolitan Detroit. Target also announced plans to enter the Pacific Northwest, where it hopes to be operating up to 35 units by 1993.

- Zayre Stores, which last month lost its chairman when Malcolm Sherman resigned, topped \$3 billion in sales last year despite reduced pretax earnings of \$129.9 million, down from \$141.9 million the previous year. Over the past three years, same store sales increases have declined, from a 10.4 percent gain in 1984 to 4.3 percent in 1986.

Zayre Stores, with 362 locations at year-end 1986, plans to add 25 stores this year. The spin-off of the company's apparel divisions, T.J. Maxx, a newcomer to the billion dollar club last year, Hit or Miss, and Chadwick's of Boston, will facilitate plans to add 35 units to T.J. Maxx's 226-store total and 50 units to Hit or Miss' 461 store base.

- Bradlees' sales rose 19 percent to \$1.9 billion, as the upscale discounter took steps to reduce overhead and improve profitability. Parent Stop & Shop's confidence in the resurgence of its discount store arm is illustrated by plans to open 10 new Bradlees stores in 1987 and to increase the pace of existing store renovations.

- An \$18 million inventory shortage marred Ames' record sales of nearly \$1.9 billion last year as the company assimilated its Murphy's Mart acquisition of 1985. First quarter 1987 sales are up 19 percent from last year's period and net profits showed a 20 percent gain.

- The combination of May Department Stores' Caldor and Venture divisions gives the company the fifth highest sales total of all the full-liners. Caldor, acquired by May from Associated Dry Goods in 1986, posted sales of \$1.4 billion, a 5 percent rise. The more profitable Venture division experienced a 10 percent sales gain to \$1.1 billion last year. While the company has no plans to

merge the two divisions, it appears that with an influx of several Venture executives to positions with Caldor, many operating formulas of the successful Venture Stores will be incorporated into the East Coast chain.

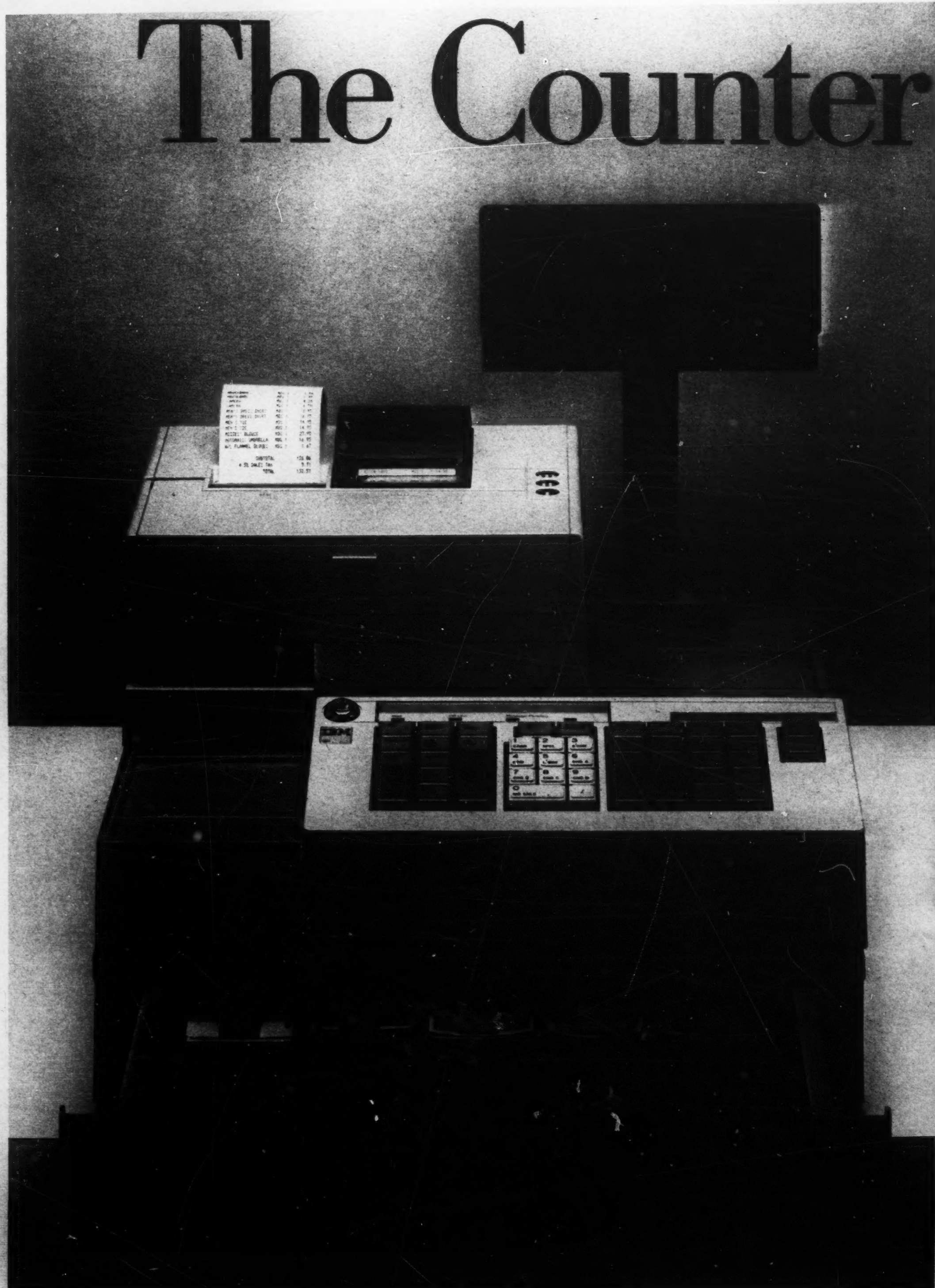
Other full-line discounters that experienced double-digit sales gains last year included Hills, Rose's, ShopKo, Fedco, Jamesway and Pamida.

Top Specialty Chains

Chain	1986 Sales (In Mil.)	Chain	1986 Sales (In Mil.)
Marshall's	\$2,270	Shuck's Auto	\$490
Marshall's	1,409	Key Bee	487
T.J. Maxx	1,080	Pep Boys	485
Circuit City	1,011	The Federated Group	430
Western Auto	857	Burlington Coat	382
Highland	656	Auto Shack	365
Hamm's	630	Crazy Eddie	353
Child World	629	Loehmann's	351
Silo	600	Hit or Miss	345
Ross Stores	534	Dahman's	323

Source: DSN research

The Counter



Specialty Retailers Outpace Full-Line Chains with 5% Growth

Nationwide DSN Report
Specialty stores will continue to outpace full-line discounters in sales growth this year. These product category specialists, including off-price apparel, toys, consumer electronics, automobiles and sporting goods chains, will generate about \$19 billion in sales this year, up 5 percent from 1986.

The number of billion dollar specialty chains doubled last year to four, as T.J. Maxx and Circuit City joined Toys "R"

Us and Marshalls at the top of the specialty chain lineup.

Toys "R" Us, with nearly \$2.3 billion in sales, remained far ahead of the top toy chains in total sales last year, while the fastest grower by percentage sales gain was Toys Plus, a 34-store, St. Charles, Mo.-based toy chain, which grew 59 percent to \$27 million.

Marshalls, the off-price division of Melville Corp., and T.J. Maxx, Zayre Corp.'s off-price chain, remained Nos. 1 and 2, respectively, dominat-

ing the remainder of the off-price apparel segment.

Circuit City became the first CE chain to reach the \$1 billion mark in sales with a 43 percent gain. However, a shakeout among consumer electronics chains, which began in 1986 with the closing of Pacific Stereo, is expected to continue in 1987 due to flattening sales and rapid expansion of many retailers into each other's markets.

Schuck's acquisition of Lucky Stores' automobiles di-

vision last year propelled the Phoenix-based chain to the No. 2 spot among automotive specialty chains and 11th nationally among all specialty retailers. Western Auto went public last year and purchased a chain of tire stores. Pep Boys continued its aggressive expansion, which resulted in a 25 percent sales gain last year. And Auto Shack was spun off by its parent, Malone and Hyde, in preparation for going public. Overall, automotive chains experienced some of

the most impressive sales gains of all specialty retailers last year, as seven chains reported sales increases ranging from 14 percent to 35 percent.

The big got bigger among the sporting goods specialty retailers. Herman's, the industry leader in sales, bought Utah-based Sunset Sports (40 stores) last August and added another 40 new stores. And Thrifty Corp., parent of Big 5 Stores, purchased Gart Brothers and retailer Michigan Sporting Goods.

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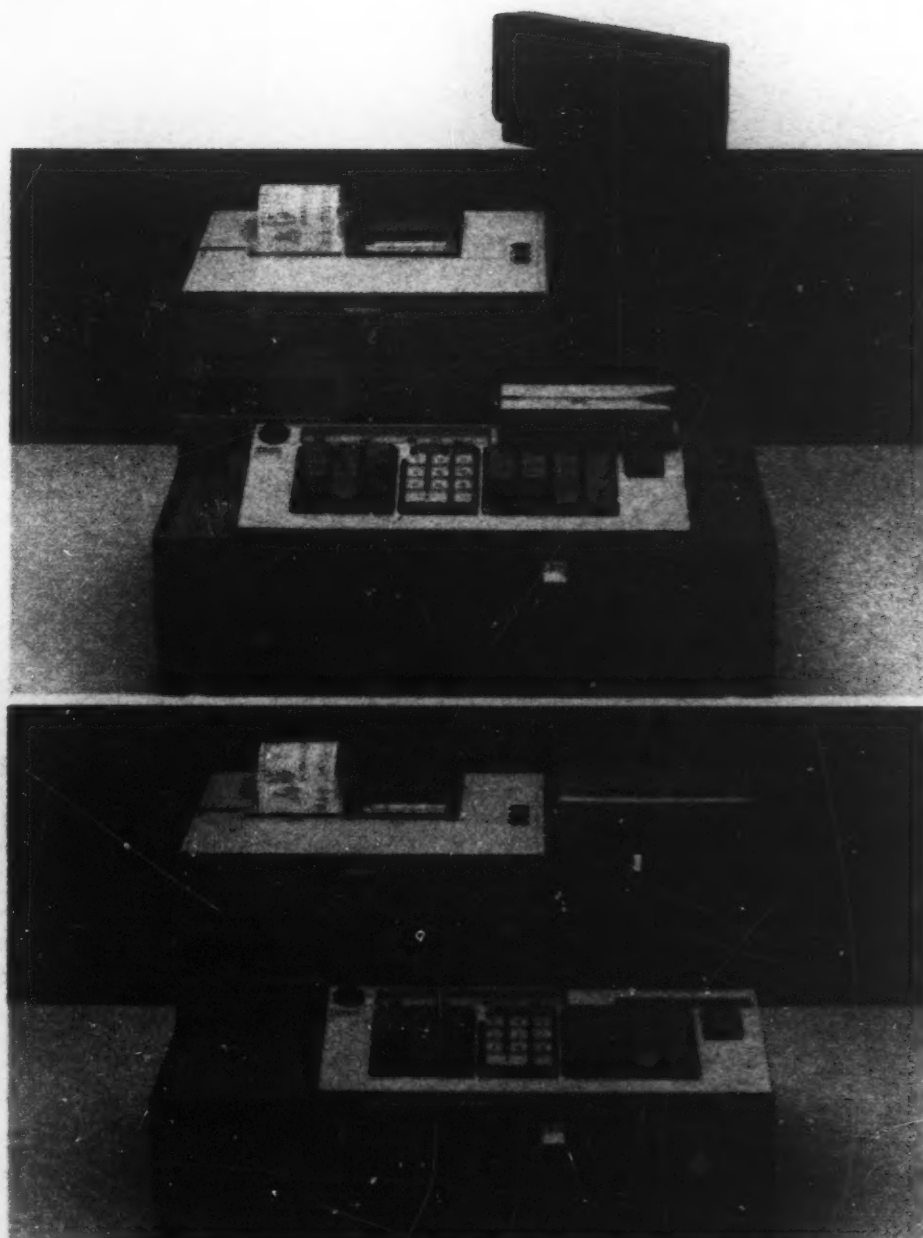
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1B Dollar Club Adds 3, Loses 2

Nationwide DSN Report

Three chains joined the ranks of the billion dollar discounters last year, but two dropped out, leaving the billion dollar club with a net gain of one new member in 1986.

The newest billion dollar chains were: Wal-Mart's Sam's Wholesale Club division, which registered nearly \$1.7 billion in sales last year; Zayre's T.J. Maxx off-price apparel chain, which hit close to \$1.1 billion in 1986; and Circuit City, the consumer electronics specialty chain, which cracked the billion dollar mark for the first time last year.

The billion dollar dropouts were: Gemco, which was closed and sold to Target last year; and Gold Circle, which suffered an 8 percent sales decline to \$969 million last year.

Since 1980, the billion dollar club has grown from seven chains generating about \$22 billion to 21 chains generating almost \$67 billion in 1986.

Billion Dollar Club

Chain	1986 Sales (In Bil.)
K mart	\$22.11
Wal-Mart	10.20
Target	4.36
Zayre	3.05
Price Club	2.59
Service Merchandise	2.53
Toys "R" Us	2.27
Best Products	2.14
Brooks	1.90
Ames	1.89
Sam's	1.68
Caldor	1.41
Meijer	1.40
Roses	1.20
Venture	1.10
Fred Meyer	1.07
Circuit City	1.00
General merchandise sales only	
Source: DSN research	

Top Warehouse Clubs Dominate Industry in Sales, Units

Nationwide DSN Report

Explosive is the only word to describe the continuing growth of the membership warehouse club industry.

The industry's volume is expected to hit \$11.8 billion this year, up 45 percent from \$8 billion, with the top 10 chains leading the charge.

Despite this bright glow surrounding the membership warehouse industry and particularly its 10 leading chains, there are some dark spots. The blackest is the red ink that's been flowing across the bottom of most companies. Only the Price Club and Costco, among the publicly held chains, are profitable, while discounter Wal-Mart acknowledges that its Sam's division is also profitable.

Both the Warehouse Club and The Wholesale Club lost money last year, while Kroger has said that its Price Saver division did the same but expected the wholesale club chain to turn the corner this year. BJ's parent, Zayre Corp., hasn't broken out any specific financial information on the membership warehouse.

Two Chains Closing in '86

The other negative factor is the closing of two chains, Value Club and Money's Worth, along with the Warehouse Club shutting two of its trio of stores in the Chicago market.

In pacing the industry's growth, the top 10 membership warehouses last year saw their sales jump 74.2 percent to \$7.29 billion from \$4.18 billion in 1985. Meanwhile, their store count went up 41.6 percent to 187 wholesale clubs from 132 units. Their store count is expected to jump 50.3 percent this year and reach 281 units.

While the 20-company business as a whole has shown remarkable growth, the top 10 chains are the core force driving the industry, with two, the Price Club and Sam's, the premier wholesale clubs in sales and stores.

These 10 companies accounted for 91.1 percent of the industry sales in 1986, down slightly from 92.9 percent in the previous year. On the store side of the ledger, the top companies accounted for 82 percent of the units, down 14.9 percent from 96.4 percent.

The slight declines in the overall standing of the top 10 chains is due to the entry and growth of a number of newcomers like Saveco and Save Club in California, Net Cost Club in Pennsylvania and American Wholesale Club and Team in Texas.

As for the two leaders, the Price Club's sales in 1986 increased 41 per-

cent from the prior year while Sam's jumped 117 percent. The Price Club accounted for 32.4 percent of the industry's volume last year while Sam's share was 21 percent. In 1985, the Price Club's portion was 43.9 percent and Sam's had an 18.5 percent share.

The battle for Los Angeles reflects the rapid maturing of the membership warehouse industry during the past two years, forcing chains to expand in markets where there already are wholesale clubs.

The more rapid growth exhibited by Sam's, the membership warehouse division of discounter Wal-Mart, augers a noteworthy change in the wholesale club business: Sam's this year is poised to replace the Price Club, the founding and leading membership warehouse, as the premier chain in the industry in sales and stores.

Sam's leap into the top spot reflects its parent company's drive to try and dominate the industry by sheer number of stores through the rapid opening of as many units as possible—an expansion route the discounter itself

pursues. Sam's expansion received a big boost when its parent acquired the 20-store Super Savers Wholesale Warehouse chain, with 15 units due to become Sam's.

The Price Club, not to be outdone by Sam's growth, plans to undertake its greatest expansion ever by opening a dozen wholesale clubs this year while replacing three older units, with about one quarter of the stores set for the Los Angeles market. The chain has also such new services as travel, purchase of cars and furniture, optical and pharmacy.

Price Club's opening more stores in the Los Angeles market denotes how competitive that area has become. Once home to only the Price Club, Los Angeles has seen Costco, PACE, Buyer's Club Price Saver, Save Club and Saveco together open more than a dozen stores there in the past nine months.

The battle for Los Angeles reflects the rapid maturing of the membership warehouse industry during the past two years, forcing chains to expand in markets where there already are wholesale clubs.

There are at least two different membership warehouses competing in a growing number of the nation's leading cities. The lineup includes:

- Price and BJ's in New York;
- BJ's and Warehouse Club in Chicago (with American Wholesale Club planning to enter the market in the fall);
- BJ's, Makro and Net Cost Club in Philadelphia;

- Sam's and American Wholesale in Dallas-Fort Worth;
- PACE and Warehouse Club in Detroit;
- PACE and Price Club in Baltimore;
- Costco, The Wholesale Club and Price Savers in Minneapolis/St. Paul;
- Buyers Club and PACE in Denver;
- Sam's and Costco in Orlando, Fla.;
- The Wholesale Club and Warehouse Club in Columbus, Ohio;
- Costco and PACE in Tampa/St. Petersburg, Fla.

The competition has resulted in membership warehouses trying to develop a unique identity by offering services or benefits that competitors don't. Such moves include PACE offering its own credit card, while BJ's, Price Savers, Saveco and Net Cost Club have allowed FundNet, an outside service, to install a system that enables shoppers to access their credit card line for funds to use in the wholesale clubs.

The growth of the full-line membership warehouses has sparked an offshoot, specialty wholesale clubs like the Home Club and SportsClub. These companies use the membership warehouse format for the marketing of an overwhelming assortment of goods in one category. The 28-unit Home Club, also an arm of BJ's parent Zayre Corp., centers on hardware, lumber and building supplies, while the startup SportsClub, which aims to have a dozen units by the end of the year, offers sporting goods hard lines and apparel.

Top Membership Warehouse Clubs

Chain	Sales (In Millions)		Percent Change	Number of Stores		
	1986	1985		1987	1986	1985
Price Club (Calif.)	\$2,550	\$1,334	113	139	27	24
Sam's (Ark.)	1,678	775	117	84	49	23
Costco (Calif.)	747	367	104	57	37	17
PACE (Colo.)	603	275	119	32	25	16
Buyer's Club (Calif.)	499	249	100	24	15	11
Makro (Ohio)	300	240	25	5	4	4
Price Savers (Utah)	300	200	50	16	6	5
Super Saver* (La.)	254	77	230	—	20	9
The Wholesale Club (Ind.)	158	76	108	16	11	5
Warehouse Club (Ill.)	157	89	76	12	14	7

*Super Saver was acquired in June by Wal-Mart Stores, parent of Sam's.

Source: DSN research



Seattle-based Costco has added 20 new units each year since 1985. The chain plans to have a total of 50 membership warehouses by year-end.



Sam's Wholesale Club is poised to become the No. 1 membership warehouse club, with 1986 sales increasing 117% to \$1.68 billion. (DSN photos)

Top Automotive Chains Change Hands in Volatile 1986

Nationwide DSN Report

A public debut, acquisitions, a planned divestiture and preparations to go public, along with a move into electronic POS scanning, were some of the major happenings among the nation's leading automotive specialty retailers last year:

- In a case of a minnow's swallowing a whale, Schuck's, a chain of 96 stores, acquired 378 stores of the auto division of Lucky Stores for \$155 million. Schuck's, which has moved its headquarters to Phoenix, Ariz., from the Seattle area, is considering going public—perhaps as early as next year.

- Western Auto, St. Louis, went public as an independent concern, giving the industry and the investing public the first look at financials since Beneficial Corp. bought the nation's largest auto chain in 1961. At the same time it went public, Western Auto bought Tire America, a chain of 52 tire stores that boosted its consolidated sales figures by \$87 million.

- Malone and Hyde, the largest grocery wholesaler in the South, spun off its Auto Shack division, which is based in Memphis, as a separate corporation, a move that paves the way for taking the chain public.

- Grand Auto, Oakland, Calif., the only top chain to lose sales ground in 1986, put itself on the auction block earlier this year, but no one made an offer its board couldn't refuse.

- Whitlock Corp., now in Des Plaines, Ill., acquired the Rose Auto chain in Florida, and in turn, Great Britain's largest auto chain acquired Whitlock from its British owners.

- Trak Auto, Landover, Md., part of the Dart Group, bought a partner's half interest in the Trak West division after the partner, Thrifty Corp., was acquired by another concern.

Western Auto was taken private in December 1985 when N.J.-based Wesray, the corporation headed by former treasury secretary William Simon, bought it from Beneficial. Wesray took the chain public in January 1987, the same month it acquired Tire America.

Western's annual report shows that a long-term trend toward increasing the number of company stores is underway, along with a parallel trend of closing franchised stores and weaning surviving stores away from a merchandise mix of automotives, lawn & garden, consumer electronics and appliances, and putting them on a stricter diet of automotives.

In 1986, it closed a net of 124 franchised stores, leaving a total of 1,744,

Top Automotive Specialty Chains						
Chain	Sales (In Millions)		Percent Change	Number of Stores		Average Store Size (In Sq. Ft.)
	1986	1985		1987	1986	
Western Auto (Mo.)	\$760 ^a	\$721	5%	2,032	1,997	7,000
Shuck's Auto (Ariz.)	490 ^b	385	27	500	474	4,000
Pep Boys (Pa.)	486	389	25	212	177	17,600
Auto Shack (Tenn.)	365	270	35	386	306	5,400
OTASCO (Okla.)	309 ^a	288	7	575	575	7,000
Chief Auto (Texas)	256	246	4	485	465	3,250
Nationwide (Ohio)	200	175	14	200	174	6,000
Trak Auto (Md.)	183 ^c	144	27	245	212	6,000
Grand Auto (Calif.)	166	168	(1)	121	113	12,500
Whitlock (Ill.)	150 ^d	115	30	177	162	13,000
Auto Works (Mich.)	145	127	14	226	176	5,000

^aIncludes sales from company-owned stores and wholesale revenues from franchisers.

^bIncludes totals for Lucky Auto division, acquired December 1986.

^cIncludes results for Trak West division, acquired in 1987.

^dIncludes results for Rose Auto Stores, acquired October 1986.

Source: DSN research

and opened 40 company-owned stores, for a total of 253. In comparison, Western Auto had 2,554 franchised stores in 1982. These stores were mostly in small, rural towns.

Because of the drop in franchised stores, wholesale revenues fell by 10 percent in 1986. And this, in turn, enriched the retail component of Western Auto's sales mix.

Precise consolidated sales figures for the Schuck's group, which now includes the Kraggen and Checker units of Lucky Auto, are difficult to come by, and the private company declined to release them. A company official says, however, that its 1986 consolidated sales of between \$490 million and \$500 million puts it ahead of Philadelphia-based The Pep Boys—Manny, Moe & Jack, which reported 1986 sales of \$487 million.

Fred Nelson, director of advertising and corporate relations, said Schuck's is considering going public, perhaps as early as 1988. But that won't happen until the company integrates its acquisitions into its new POS system.

Auto Shack, which its food parent started in 1979, now operates 386 stores and intends to open 80 stores a year. Now that Auto Shack has become a separate legal entity, Malone and Hyde has set the stage for taking the automotives firm public. But that won't happen for at least three years, a company spokesperson said.

In another development, Auto Shack settled a lawsuit with Tandy Corp., which operates the Radio Shack chain, by agreeing to drop the word shack from its name by 1989. An employee contest to pick a new name is underway.

In an effort to boost flat sales, Grand Auto, Oakland, Calif., increased by more than a third the number of parts and accessories sku's it carries. Nonetheless, its board retained Shearson Lehman last spring to find a suitable takeover partner.

President John F. Goodsell announced last month that the board rejected a number of purchase offers from unidentified suitors. But he said Shearson continues to evaluate a possible sale or restructuring.

Whitlock boosted its store count by 40 when it acquired the Rose Auto chain in Florida late last year. In turn, Ward White, which operates the 380-unit Halfords automotives chain in Britain, acquired Whitlock from another British group, LCP Holdings, and moved corporate headquarters to Des Plaines, outside Chicago.

Trak Auto, a public corporation controlled by Herbert Haft and his son, Robert, of the Dart Group, has consolidated sales figures for its Western division, now that Thrifty sold back its partnership in that division.

The Pep Boys—Manny, Moe &

Jack, apparently has been nudged out of the No. 2 spot in sales by Shuck's acquisition of the Lucky unit. It continues an aggressive expansion drive that will carry it into Atlanta, from previous expansion centers in Dallas and Los Angeles.

The Pep Boys continues to derive strength from operating stores more than three times the size of many competitors and installing the parts its sells as the do-it-yourself movement loses steam.

Chief Auto, Dallas, a division of the Southland Corp. (7-Eleven convenience stores), is capitalizing on its Texas and California base by beginning to advertise in Spanish in newspapers and on radio and TV. Hispanic customers comprise about 20 percent of Chief's customers.

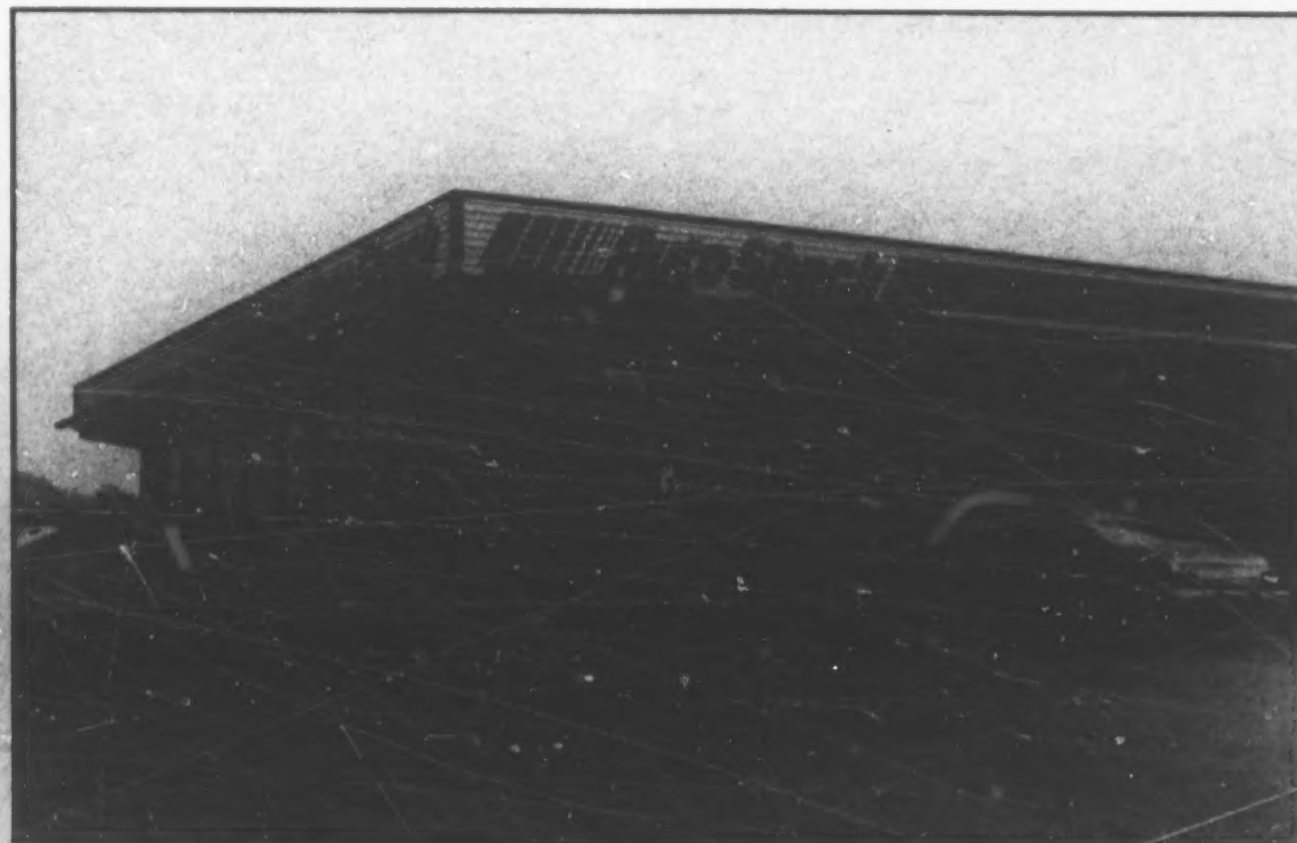
In a move that takes them into the mainstream of retailing technology, Chief, Pep Boys, Nationwide, Auto Works and other chains are installing slot scanners in their stores. (See DSN, July 6, 1987).

In addition, Whitlock is completing the installation of electronic POS equipment in all its stores at a cost of \$3 million. And Shuck's is integrating the stores acquired from Lucky into its POS system.

In the case of Chief, efficiency studies showed that slot scanners are superior to hand-held wands. Moreover, slot scanners have dropped significantly in price.



Western Auto is increasing the number of company stores (opening 40 in 1986 for a total of 253), closing franchised stores (124 in 1986 for a total of 1,744) and refining the mix at surviving stores to more strictly just automotives.



Memphis, Tenn.-based Auto Shack operates 386 stores and intends to open 80 stores a year. The chain was spun off by its parent Malone and Hyde to set the stage for taking the automotive firm public in about three years. (DSN photos)

ANNUAL REPORT

CE SPECIALTY CHAINS

CE Chains Expand Rapidly in Battle for Market Share

Nationwide DSN Report

A shakeout among consumer electronics chains, which began in 1986 with the closing of Pacific Stereo, is expected to continue in 1987 due to flattening sales and rapid expansion of many retailers into each other's markets.

Six leading consumer electronics chains have moved up over the last year to be included in the nation's top 15 CE chains. Ranked seventh in the country is an Edison, N.J.-based two-store chain, Tops Appliances, which grew 41 percent from \$185 million to \$260 million in 1986.

The fastest growing chain last year, Minneapolis-based Best Buy, took over the eighth position, with a 112 percent increase from \$113 million to \$239 million in 1986. American TV, a six-store chain based in Madison, Wis., grew 6 percent last year to become the 12th leading CE chain in the country with sales of \$160 million.

The other three newcomers to the DSN list of the top CE specialists, The Wiz, Trader Horn and Brick Church, all compete in the greater New York market, one that is so competitive that even Circuit City, the nation's leader, exited it in 1986. New York-based The Wiz, the 11th largest CE chain in the country, posted a sales increase of 19 percent to \$200 million from \$168 million. Hasbrouck Heights, N.J.-based Trader Horn saw its sales increase 4 percent to \$135 million from \$130 million, snaring the 14th slot. Brick Church is now the 15th leading CE chain, with a sales increase of 25 percent from \$80 million to \$100 million.

Beset with financial troubles, lead-

Top Consumer Electronics Specialty Chains

Chain	Sales (In Millions)		Percent Change	Number of Stores		Average Store Size (In Sq. Ft.)
	1986	1985		1987	1986	
Circuit City (Va.)	\$1,010	\$705	43%	110	87	32,000
Highland (Mich.)	656	521	26	63	53	22,000
Silo (Pa.)	600	500	20	160	120	8,000
The Federated Group (Calif.)	430	364	18	65	59	30,000
Crazy Eddie (N.J.)	353	262	35	40*	32	8,000
Fretter (Mich.)	273	214	28	55	45	15,000
Tops Appliances (N.J.)	260	185	41	2	2	50,000
Best Buy (Minn.)	239	113	112	40	23	28,000
American TV (Wis.)	229	182	26	131	106	20,000
Newmark & Lewis (N.Y.)	214	142	51	42	34	9,000
The Wiz (N.Y.)	200	168	19	22	19	8,000
American TV (Wis.)	160	151	6	6	6	100,000
Trader Horn (N.J.)	140	110	27	58	53	10,000
Brick Church (N.J.)	135	130	4	15	14	8,000
Brick Church (N.J.)	100	80	25	23	20	10,000

All figures for last completed fiscal year ended in first quarter of 1987 except: American TV, figures for year ended June 30, 1986 and Brick Church, figures for year ended Aug. 31, 1986. Source: DSN research

ing CE chain Pacific Stereo filed for Chapter 11 in May of 1986, owing creditors \$36.8 million and holding assets worth just \$21.6 million. When a takeover attempt by Colorado-based U.S. Electronic Company fell through, Pacific Stereo began a liqui-

dation of its assets in October 1986. A smaller, 25-store chain, Atlanta-based Stereo Village, also filed for Chapter 11 in December.

However, Richmond, Va.-based Circuit City has been able to thrive, becoming the first CE chain to reach

the \$1 billion mark in sales. Sales increased 43 percent from \$705 million in 1985 to \$1.01 billion in 1986. The chain eliminated its less profitable operations (the Lafayette stores in New York and the licensed depart-

(Continued on page 76)

ANNUAL REPORT

TOY SPECIALTY CHAINS

Most Toy Chains Increase Volume; TRU Cracks \$2 Bil.

Nationwide DSN Report

While Toys "R" Us remains far ahead of the top toy chains, the fastest grower by percentage of sales gain last year was Toys Plus, a 34-store St. Charles, Mo.-based toy chain, which grew 59 percent from \$17 million to \$27 million and moved into the seventh spot from ninth the previous year.

The other toy chains kept their positions, with nine out of the 11 increasing their sales volumes. Toys "R" Us increased the volume for its toy stores 23 percent from \$1.84 billion to \$2.27 billion.

During 1986, TRU opened 38 toy stores in the U.S. and entered the Cleveland market. It also opened six toy stores in Canada, three stores in the United Kingdom and its first stores in Hong Kong and Singapore. TRU currently has 295 toy stores in operation in 31 states, Canada, the United Kingdom, Singapore and Hong Kong.

In 1987, TRU plans to open 45 toy stores in the U.S., including the new markets of Pittsburgh and Phoenix, and 13 international toy stores in Canada, the United Kingdom and a new market of West Germany.

The nation's No. 2 chain, Avon, Mass.-based Child World, increased sales 23 percent from \$513 million to \$629 million. Operating under the names of Child World and Children's Palace in 28 states, the chain has grown to 134 stores in 47 markets. New markets included Dallas, Milwaukee, Birmingham, Ala., and Charleston, S.C. The company expects to grow to 149 stores in 1988.

"In 1986, we demonstrated high

Top Toy Specialty Chains

Chain	Sales (In Millions)		Percent Change	Number of Stores		Average Store Size (In Sq. Ft.)
	1986	1985		1987	1986	
Toys "R" Us (N.J.)	\$2,270	\$1,840	23%	295	246	4,000
Child World (Mass.)	629	513	23	134	119	36,000
Avon (Mass.)	487	401	21	639	584	3,500
Lionel Leisure (Pa.)	283	246	15	65	52	35,000
Greenman Bros. (N.Y.)*	150	110	36	341	310	3,500
K&K Toys (Va.)	50	43	16	104	96	3,000
Toys Plus (Mo.)	27	17	59	34	25	10,500
Karl's Toys (Calif.)	25	18	39	26	24	5,500
Toy King Toys & Gifts (Pa.)	15	19	21	54	58	3,000
Hobby Center Toys (Ohio)	12	12	0	26	27	2,400
Toy & Sport Warehouse (N.Y.)	11	10	10	5	5	16,500

*Includes Playland, Playworld and Circus World units.

Source: DSN research

levels of sales increases during the fourth quarter in a tough toy year. We increased overall business by 35 percent in the fourth quarter," said Gilbert L. Wachsman, president of Child World. Comparable store sales at Child World increased 22 percent during the Christmas season and 9 percent for the year.

The company believes it was able to have a good fourth quarter due to much better marketing efforts in circular and television advertising. The company went from four circulars to

nine from October to Christmas 1986. The quality of the circulars changed with more clarity and visual impact in the presentation, Wachsman added.

A number of merchandising programs begun in 1986 have had a positive effect on the company's sales. In February, Child World added disposable diapers to its merchandise offering in all stores after a successful six-month test in 15 stores in 1986.

Another successful merchandising program for Child World was the creation of a new Learning Center in

1986, combining learning aid and child development categories.

First quarter sales for Child World have increased 29 percent and comparable store sales increased 17 percent, according to Wachsman.

Ranked third among the top chains, Lee, Mass.-based Kay-Bee Toy & Hobby Shops increased sales 21 percent from \$401 million to \$487 million. The chain increased its store count from 584 to 639 and expects to reach 694 in 1988.

(Continued on page 76)

OFF-PRICE APPAREL CHAINS

ANNUAL REPORT

Top Off-Pricers Achieve Sales Gains in Difficult Market

Nationwide DSN Report

After a harsh shakeout period that many believe is not yet over, several of the stronger apparel off-price chains are refining their merchandising strategies in order to continue to prosper in this hotly contested market.

To achieve improved growth going forward, the top three chains have undergone key management changes or company restructuring over the past 12 months, reflecting just how finely tuned a chain has to be to compete effectively.

Yet despite the recent tough times, sales for these off-price apparel specialists continue to grow, cutting into the discount soft goods pie dominated by the K marts, Wal-Marts and Zayres.

Marshalls, the off-price division of Melville Corp., and T.J. Maxx, Zayre Corp.'s off-price chain, remained Nos. 1 and 2, respectively, dominating the remainder of the field. However, a closer look at these two billion-dollar-plus chains show two distinctly different paths traveled last year.

Marshalls' sales were up last year but its earnings were down, and by the end of the year it became apparent that changes in strategy, as well as in management, were required.

Over the years, Marshalls had become a dumping ground for all kinds of brands, with store management as concerned with price points and keeping the rapidly expanding chain supplied with enough product as with anything else. In the process, Marshalls' traditional targeting of the department store shopper became less of a priority, which led to a stagnation

of its better branded business.

Now Marshalls has a new management team in place and an attempt is underway to reverse the errors made in the past.

At T.J. Maxx, sales skyrocketed to over \$1 billion for the first time in the chain's history. During the year, the off-pricer continued trading-up, adding special designer departments featuring better brands. While adding another 35 units last year, the chain continued to aggressively target the department store customer with up-to-date, fashionable merchandise.

To help finance a planned expansion of 35 stores a year for the next five years (the chain will enter the California market for the first time with 10 units before year-end), parent Zayre is spinning off T.J. Maxx, along with its Hit or Miss and Chadwick's of Boston divisions, as a separate company called TJX Cos.

Ross, while remaining the No. 3 chain on the list, had an even bumpier time of it last year than Marshalls. While the California-based off-pricer posted total sales gains, it lost \$11.7 million before taxes. Ross also closed 25 unprofitable units in the Texas-Oklahoma area early this year in an effort to cut further losses. Nevertheless, Ross posted a \$4.2 million loss for first quarter 1987.

However, first quarter same store sales were up 8 percent, company officials pointed out.

Ross also saw a reshuffling of its top management earlier this year: Stuart Moldaw is now chairman and chief executive officer, and Norman Ferber was promoted to president

(Continued on page 77)

Top Off-Price Apparel Specialty Chains

Chain	Sales (In Millions)		Percent Change	Number of Stores		Average Store Size (In Sq. Ft.)
	1986	1985		1987	1986	
Marshalls (Mass.)	\$1,409	\$1,324	7%	286	261	29,000
T.J. Maxx (Mass.)	1,050	825	27	261	226	19,000
Ross (Calif.)	534	376	42	131	121	25,000
Burlington Coat (N.J.)	382	343	11	100	87	40,000
Hit or Miss (Mass.)	351	322	9	NA	90	NA
Yankee Candle (Mass.)	345	310	11	501	461	3,200
Yankee Candle (Mass.)	252	213	18	22	22	25,000
Sizes Unlimited (N.J.)	240	255	(6)	NA	247	NA
Yankee Candle (Mass.)	223	215	4	NA	17	NA
Dress Barn (Conn.)	175	135	30	300	235	4,000
Yankee Candle (Mass.)	161	127	27	343	263	3,800
NBO Stores (N.J.)	73	64	12	26	21	8,000

NA—not available

Source: DSN research

SPORTING GOODS SPECIALTY CHAINS

ANNUAL REPORT

Herman's, Thrifty Solidify Holds on the Specialty Market

Nationwide DSN Report

The big fish are gobbling up the little fish in sporting goods specialty retailing.

Herman's, convincingly the largest dollar entity in the industry, bought Utah-based Sunset Sports (40 stores) last August, added another 40 new stores and plans to open 60 or more over the next year.

Not to be outdone, Thrifty Corp., parent of Big 5 Stores, purchased Denver-based Gart Brothers and Niles, Michigan retailer Michigan Sporting Goods. The two acquisitions, which increased its store count 49 percent to 134, moves Thrifty to within striking distance of Oshman's, the industry's No. 2 retailer.

Industry analysts have said that the Houston discount store was "under heavy pressure" from Herman's, which is invading large parts of Oshman's traditional market from the east, while Big 5 and its new subsidiaries squeeze in from the west.

Richard Bockart, Oshman's treasurer, pointed to the disastrous Texan economy as a key to the chain's relatively poor performance over the past two years. "The only turnaround we've seen is that it [the economy] has stopped going down," he said. "Hopefully, it's hit bottom, but we're still looking at a few years before it comes back."

He said that Herman's move into the Texas market would make things more competitive, but that the company was maintaining margins and becoming more promotional in response to the "much more competitive" market conditions.

Thrifty, meanwhile, has solidified

its position in Oshman's other major market, California, and branched out to the Midwest and the West Coast with the purchases of Gart Bros. and Michigan Sporting Goods. Shearson Lehman analyst Ed Tirello Jr. noted, "Going national seems to be the key and Thrifty has what the competition doesn't—cash flow. The independents are borrowing at prime plus 10, so they can't really afford to expand. The result is that their [Thrifty's] sporting goods segment seems to be doing well. They have a good strategy and it's paying off."

Sporting goods on the whole re-

mains a slow, steady grower in the consumer market, and most growth comes in the form of increased market share, not booming same store percentage leaps. Herman's vice president George Walker noted that "the whole industry is waiting" for a new sales trend to emerge.

Exercise equipment, the most recent growth star, has plateaued—and nothing has stepped in to take its place. The more hopeful among manufacturers and retailers are looking for walking shoes to pick up the slack, but most of the top specialty retailers said that the "sport" is yet to devel-

op—and may never amount to much.

Walker noted, however, that manufacturers seem to have overcome a significant hurdle—convincing consumers that they need special equipment to do something as basic as walk. "There's still a lot of styling resistance out there," he said. "Most walking shoes look funny."

Future growth in the area may be severely affected by pending import legislation. Protectionist in nature, proposed bills could impose significant quotas on leading supply nations like Japan and Korea.

(Continued on page 77)

Top Sporting Goods Specialty Chains

Chain	Sales (In Millions)		Percent Change	Number of Stores		Average Store Size (In Sq. Ft.)
	1986	1985		1987	1986	
Herman's (N.J.)	\$620	\$420	50%	208	131	10,000
Oshman's (Tex.)	323	312	9	214	209	10,000
Big 5 (Calif.)	190	175	10	75	82	NA
Sportmart (Ill.)	141	129	10	15	12	35,000
Sunset Sports (Utah)	120	116	3	36	40	10,000
Dave Cook (Calif.)	64	62	3	17	17	NA
Gart Bros. (Calif.)	60	54	10	16	15	20,000
Michigan Sporting Goods (Mich.)	45	42	7	24	16	NA
Yankee Candle (Mass.)	37	37	5	20	20	NA
Irving Sports (Va.)	18	17	5	18	18	NA

Sunset was acquired by Herman's in August 1986.
NA—not available

Thrifty Corp. owns Big 5, Gart Bros. and Michigan Sporting Goods (total 134 stores).
Source: DSN research

Regional Chains Grow; Overall Sales Contract

Nationwide DSN Report

The catalog showroom industry was affected last year by a number of diverse trends:

- Regional catalogers like Brendle's, L. Luria & Son, K's Merchandise, David Weis, Dahlkempers, and Present, among others, remained the industry's pacesetters, chalking up gains in both sales and earnings.

- While a number of chains showed sales gains, overall there was a 4.2 percent slide in the industry's sales to \$6.9 billion from \$7 billion in the previous year. This was due in large measure to the continuing demise of chains large and small: Ardan and Broadman, multi-unit operators, closed in 1986 as did such one- and two-store firms like Sam Gold, Von's, Miron, Anter and Schober's.

At the same time, major catalogers shut a number of stores. Best Products, for example, closed 17. Consumers Distributing (U.S.) phased out its entire West Coast division to focus on its New England and Middle Atlantic states stores. And the trend to close stores has continued into 1987, with W. Bell phasing out four of its Houston units, while Segall & Sons has shut four showrooms.

- Service Merchandise strengthened its position as the top cataloger despite the company's reporting a record \$29 million operational loss from continuing showroom operations as it retrenched to its core business by closing down its Mr. HOW warehouse home center operation.

Service Merchandise accounted for 36.6 percent of the industry sales last year, up 14 percent from 32.1 percent in the previous year.

- Best, meanwhile, maintained its No. 2 spot while it took a \$38 million "restructuring" writedown to cover the cost of closing 17 showrooms, consolidating its Midwest regional office in its Richmond headquarters and selling the Ashby's ladies' apparel specialty store chain.

Best's share of the industry's sales fell to 31 percent last year, down 2.9 percent from 31.9 percent in 1985.

On the positive side, a number of catalogers were able to strengthen their jewelry merchandising so that this higher margin category will, over the long term, help boost the bottom line. This effort mirrors the success of chains like L. Luria & Son, where jewelry accounted for about 40 percent of sales last year.

Best, meanwhile, raised jewelry sales by 5.8 percent and its share of sales to 18.1 percent from 17.1 percent through such efforts as making jewelry the focal point of its showroom refurbishing program and revamping its jewelry buying and contracting organization. The cataloger plans to expand its 10-unit Best Jewelry division this year, rather than open any showrooms, and projects

opening 60 jewelry specialty stores during the next three years.

Ironically, the industry's heightened interest in jewelry last year saw a number of one- and two-store chains like Bernie Robbins leave the showroom field by switching their operations back to jewelry specialty stores.

The ongoing contraction into fewer but larger showroom chains is evident. Last year the top 10 cataloger showroom chains accounted for 85.1 percent of the industry volume, up 4.8 percent from their 81.2 percent share in 1985.

Chain	1985 Sales (\$ mil.)	1986 Sales (\$ mil.)	% Change	Number of Stores	1985	1986
Service Merchandise (Ill.)	2,192	2,234	(3)	194	194	194
Best Products (Ill.)	1,172	1,172	0	42	42	42
Brendle's (Ill.)	211	197	7	42	35	35
W. Bell (Tex.)	132**	143	(8)	18	24	24
David Weis (Ill.)	125	125	0	12	12	12
Jewelry (Pa.)	122	123	(1)	22	22	22
David Weis (Ill.)	100	91	10	17	17	17
McDade (Ill.)	79	92	(14)	8	8	8

*In Canadian dollars

**Fiscal year ended June 27, 1987

Source: DSN research

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DISCOUNT INDUSTRY ANNUAL REPORT

CE Specialists Expand Rapidly in Battle for Market Share

(Continued from page 39)
ments in the Los Angeles Zody's discount stores) early in 1986.

Almost all publicly owned CE retailers have experienced somewhat disappointing results in earnings expectations sometime in the last two years. Rapid expansion has been one of the reasons for CE chains generating lower than expected earnings, which resulted in large increases in expense ratios.

The intensifying competition between specialty electronic chains is another contributing factor to the industry's shakeout.

According to San Francisco-based Montgomery Securities, there were two or more

chains competing in only nine of the 35 largest metropolitan markets in the U.S. in 1984. This year, two or more chains will compete directly in 27 of these same markets.

For example, Baltimore, Md.-based Luskin's, the 13th leading CE chain with sales of \$140 million, will tackle No. 1 Circuit City in the larger chain's Virginia stronghold in Tidewater and its headquarters city of Richmond late this summer. At the same time, in Luskin's headquarters city of Baltimore, Circuit City will be entering with four stores, the first to open in mid-summer.

City of Commerce, Calif.-based The Federated Group has suffered from Circuit City's strength in Los Angeles

and has posted a \$5.23 million net loss for the fiscal year ended March 1. However, sales were up for the chain in its last fiscal year, increasing 18 percent from \$364 million to \$430 million.

Standard and Poor has lowered its rating on \$40 million of convertible debentures due in 2010 of The Federated Group to triple-C-plus from single-B because of its eroding competitive position in California. S & P also said the company is trying to correct problems that have caused substantial inventory losses, management turmoil and high employee turnover.

Taylor, Mich.-based Highland Superstores, the No. 2 CE chain with sales of \$656

million last year, recently opened three stores in Minneapolis and St. Paul close to stores run by Best Buy.

The New York investment firm added that although Best Buy's rapid expansion, which calls for the addition of 16 superstores in its next fiscal year, could increase the risk of earnings disappointments, Highland's entry into an area where Best Buy currently enjoys an over 40 percent market share remains the major concern and threat to Best Buy's earnings forecast during fiscal 1988. Earnings for Best Buy were up 93 percent for its fiscal year ended in March to \$7.7 million.

Kidder, Peabody & Co. cited Circuit City, Highland

Superstores and Best Buy to be the best managed companies with sound strategies in the industry.

Edison, N.J.-based Crazy Eddie is especially feeling pressure as the chain has lost top executives, reported plunging earnings and sees its share of the highly intense New York market dwindling to its competitors Newmark & Lewis, Trader Horn and The Wiz.

Consumers used to travel long distances just to shop at Crazy Eddie, said Donald I. Trott, an analyst with Dean Witter Reynolds, a New York securities firm. This is not the case anymore, he added, due to the other three New York competitors expanding.

Most Toy Chains Increase Volume; TRU Cracks \$2B

(Continued from page 39)

Kay-Bee had a good year in 1986, said Robert Simonson, an analyst with Kidder, Peabody & Co. Same store sales in fiscal 1986 were up 12 percent for the year and up 16 percent in December.

Philadelphia-based Lionel Leisure also had a good year, increasing sales by 15 percent to \$283 million from \$246 million. Store count grew to 65.

The company expects to expand to 80 stores in 1988. In addition to the 13 new stores opened in 1986, the chain also remodeled 11 stores. During 1986, Lionel installed in all its stores new IBM 3680 registers, which upgraded its information system by providing price look-up information by individual items.

The company operates Lionel Kiddie City, Lionel Playworld and Lionel Toy Warehouse stores in 16 states. Revenues for the first quarter ended May 2 increased 29 percent to \$41 million from \$32 million over the same period last year. Comparable store sales for the first quarter of 1987 were up 8 percent.

Farmingdale, N.Y.-based Greenman Brothers, which operates Playland, Playworld and Circus World units, increased 1986 sales by 36 percent from \$110 million to \$150 million. Norfolk, Va.-based K&K Toys increased sales 16 percent from an estimated \$43 million to \$50 million.

Los Angeles-based Merchants West, which operates Karl's Toys, also increased sales by 39 percent from \$18 million to \$25 million, with plans to have 30 stores in 1988. The company is also in the process of installing a NCR point-of-sale system to track purchases in its stores and will be moving from a 25,000-square-foot warehouse to a 55,000-square-foot warehouse in Long Beach, Calif.

New York-based Toy and Sport Warehouse increased sales 10 percent from \$10 million to \$11 million. "With a standard mix, we had a good year even though the rest of the trade struggled," said William Langus, president.



1970



1974



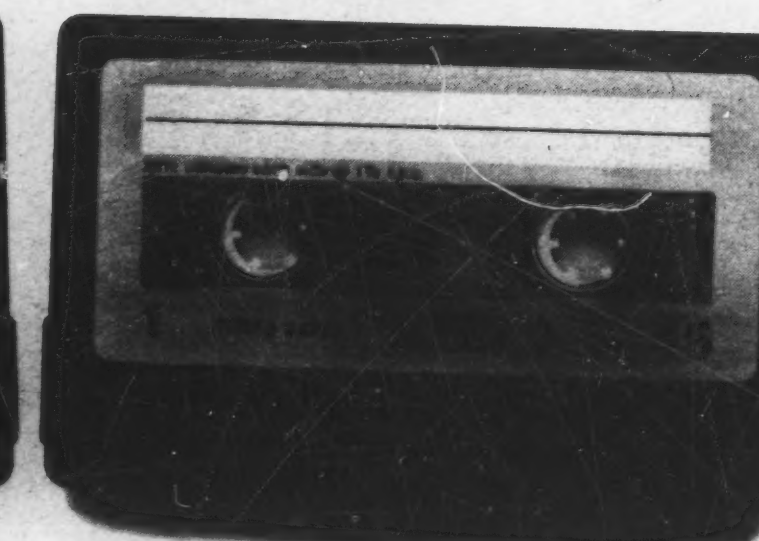
1971



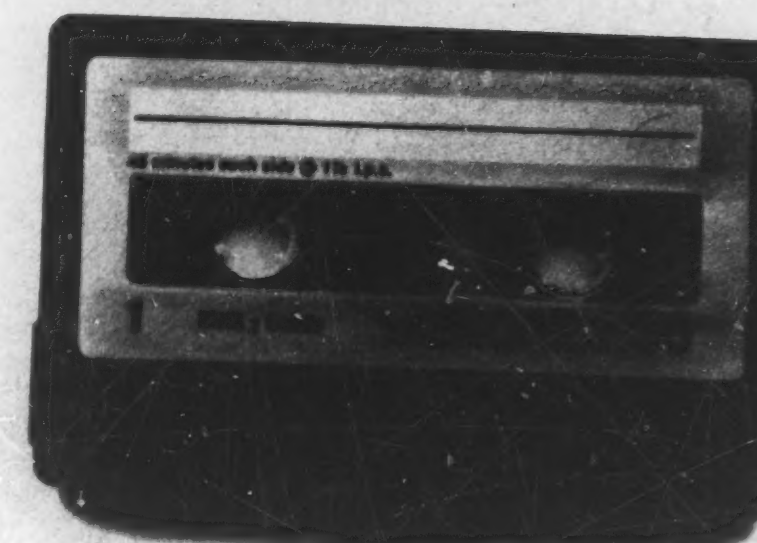
1975



1972



1976



1973



1977





Calif.-based Ross Stores gained 42 percent in sales last year, from \$376 million to \$534 million. The chain showed a net loss for fiscal 1986 and for first quarter 1987. (DSN photo)

Top Off-Pricers Achieve Gains in Tough Market

(Continued from page 40) and chief operating officer.

Moldaw, along with departed president and ceo Donald Rowlett, was a key player in shifting Ross' focus away from its juniors emphasis to a more off-price family base, emulating Marshalls and T.J. Maxx.

In addition to T.J. Maxx, off-pricers Burlington Coat and Filene's Basement, along with such smaller operations as Dress Barn, ClothesTime and NBO, posted strong 1986 results.

The only chain that was on last year's list that is absent from this year's is Designer Depot, which was shuttered late last year.

Observers and executives in this market point to the de-

mise of the 79-unit off-price apparel division of K mart, as well as Ross' recent problems, as evidence that there is still a shakeout going on, with other closings possible by year-end.

Such smaller operations as Oliver's, a women's/family apparel off-price chain based in Ridgefield, N.J., that is in Chapter 11, continue to struggle. Sizes Unlimited, the off-pricer geared to large-sized women based in Secaucus, N.J., lost money for the second straight year.

Many of these apparel off-pricers were started in the heady mid-to-late '70s, when vistas appeared limitless for the off-pricers.

But to survive in the far more competitive environ-

ment of the late 1980s, apparel off-pricers can no longer throw merchandise on the rack and sell it at 30 percent off, as Marshalls, among others, has learned.

Many of the leading off-price apparel chains continue—as do moderate-to-better department stores—to pursue quick response through better relationships and tighter link-ups with suppliers. They are also refining their ability to track sales by store, price, color and size more rapidly. Such things are no longer luxuries; they're necessities.

While private label continues to be getting the major attention at such giants as K mart, Target and Wal-Mart (operations big enough to sup-

port such programs), brands continue to play the major role in this specialty market with higher opening price points. Offering values based not just on price—but on customer perceptions of a great deal on a label they've seen at department stores—is the name of the game here.

And when private label is being added in a major way, as at NBO, it isn't just in basics to fill voids, it's as showcase item merchandise such as imported fancy wool-blend sweaters at \$39 price points.

In terms of categories, activewear in men's and women's, in fleece looks as well as others, was the strongest performer for many chains, along with denim tops and bottoms.

Herman's, Thrifty Solidify Holds on Specialty Market

(Continued from page 40)

Jeff Grey, customer relations manager and buyer at Illinois-based Sportmart, said that if the price of imports keeps going up, the category will quickly leave behind its customer base, which has become accustomed to high-quality goods at bargain prices. "A three-person tent at \$29 now might be selling for \$39 or \$49 by next year," he said. "That will dramatically affect customers' perceptions of quality and value."

Grey added that he had seen a drop in soft goods this year, but strong growth in bicycles and all outdoor sports.

Most retailers expect some sort of protectionist legislation to pass sometime during the next year whether or not President Reagan exercises his right to veto.

Apart from the import issue, most specialty sporting goods retailers seemed concerned with the "grow or die" issue. "Small businesses are going out of business," noted Gart Bros. vice president Ken Gart. "We're growing."

The most prevalent pattern of Top 10 growth seems to be by acquiring other top chains. Herman's, in particular, plans for even more expansion.

"This industry is totally dependent on the weather," said Herman's vice president George Walker. "As we become more national, the less the localized weather can affect us as a whole."

For smaller chains, the aggressive expansion of Herman's is hardly good news. For beleaguered Oshman's, already facing competition in its home Texas markets from traditional discounters, the prospect of a Herman's invasion must seem like extremely ominous icing on the cake.

With a volatile import issue threatening the industry's sources of supply, rapid expansion by the big chains, and the impact of new retailing concepts like that of California-based membership warehouse SportsClub, the sporting goods industry's "slow and stable" reputation may be in danger.



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In 25th Year, K mart Poised to Surpass \$26 Billion Mark

TROY, Mich. — A changing of the guard is under way at K mart Corp., but the move won't slow down the \$23.8 billion discounters' drive to become the nation's dominant retailing conglomerate.

The change in top management comes as the country's leading discounter celebrates its 25th anniversary. And retiring chairman and chief executive officer Bernard M. Fauber forecast that sales this year for the entire company will pass \$26 billion.

Fauber, who has been K mart's top executive since 1980, will retire later this year. In May, Samuel G. Leftwich retired as vice chairman, while five months earlier Norman G. Milley retired as president, K mart Stores, the retailing heart of the corporation.

The team of executives, headed by Joseph E. Antonini, currently president and chief operating officer, which was groomed to lead the company, have a clearly marked out path to follow to reach the \$26 billion sales goal while strengthening K mart's core discount store operation and continuing the parent's retailing diversification.

Company Goal

Fauber enunciated the company's overarching goal as "making each one of our retail nameplates a destination place. This means that any of the four types of stores . . . is the store to go to first, if you are in the market to buy those kinds of products."

The 2,204 K mart discount stores account for 89.5 percent of the parent's revenues, a slight decline from the 91.3 percent share in 1985. The discount arm will again receive a major share of the company's investment for the future, but significant resources will be spent on the three specialty store arms—Builders Square, Pay Less Drug Stores Northwest and Waldenbooks—to enable each of these operations to stake out larger market shares.

Besides producing the major share of the corporation's volume, K mart's 2,086 U.S. and 118 Canadian units led the discount store industry in sales last year with \$22.1 billion, up 6.3 percent from \$20.8 billion in volume in 1985 from 2,062 U.S. and 118 Canadian stores. This gain was paced by the 5.5 percent increase in same-store volume last year as compared to a 0.4 percent drop in 1985.

The discounter's sales last year in-

clude \$21.3 billion from company-owned departments and slightly over \$1 billion from the leased shoe sections operated by Meldisco, which is a joint venture between K mart and the Melville Corp. In 1985, company-owned sections produced \$20.1 million in volume, while the leased shoe operation had \$990 million in sales.

K mart's sales per square foot rose to \$177 from \$166.

On the earnings side, the discounter's operating income of \$1.3 billion was an 18.1 percent jump from \$1.1 billion.

The company's specialty stores, as a group, had \$2.5 billion in sales, up 30.3 percent from \$1.9 billion. Operating profits, however, declined 12.6 percent to \$37 million from \$42 million, due to the rapid growth in the total number of specialty stores—up 1,440 units from 1,282 stores—a 12.3 percent jump, along with the heavy promotional activities among these chains designed to maintain their competitive market position.

Technology Investment

The corporation support for its core K mart discount stores includes a technology investment that will run to about \$1 billion over the next five years and will involve:

- Installing the POS and scanner electronic registers currently in 552 K marts in all stores by the end of 1990, with about 250 units due to get this technology this year.

- Upgrading the POS registers into a complete merchandising information and customer service system by phasing in in-house developed software and the \$50 million state-of-the-art GTE Skystar satellite network to connect the Troy headquarters and its computer center to each store, regional office and distribution center.

About 40 new K marts are scheduled to be opened this year as part of the anticipated launching of 120 units to 140 units during the next three years. Each store, Fauber noted, represents a \$5 million investment in land, building, fixtures, equipment and inventory, and serves an average of 90,000 consumers.

Technical advances and physical growth are just part of K mart's investment for the future. Another portion is revamping and updating its merchandise operations, including the restructuring earlier this year of its hard goods division into six group-

K mart			
	1986	1985	% Change
Sales (in Millions)	\$22,107	\$20,775	6%
Operating Income (in Millions)	1,311.0	1,058.0	24
Stores	2,204	2,180	1

Source: DSN research



Bernard Fauber,
chairman and cœo



Joseph Antonini,
president

ings that reflect consumer shopping interests. The six divisions are convenience products, consumables, home fashions, leisure and entertainment, do-it-yourself, automotive and sporting goods.

At the same time, a new boutique for cosmetics is being tested adjacent to apparel and jewelry in about 50 stores to develop a synergy between these fashion-oriented categories.

K mart also pollinates its discount stores with ideas from its specialty stores—and in the case of its Waldenbooks operation has had this division roll out and run the Readers' Market book department in the discount stores. The section is already in 51 K marts and is due to be installed in another 90 stores this year.

The specialty store group's growth this year will see Waldenbooks add 79 stores for a total of 1,073. Builders Square will gain 38, for a total of 124 units; Pay Less Drug Stores Northwest will add 42, for a total of 260 units.

In 1985, the store counts for the three operations were Waldenbooks, 955, Builders Square, 30, and Pay Less Drug Stores Northwest, 183.

The planned growth of the specialty stores includes continuation of the testing of a number of new formats.

In the Waldenbooks arm, these include Walden Software, a new computer software store; Walden Kids, a unit featuring children's books and creative toys and games, and Waldenbooks and More, an expanded unit that also merchandises video tapes.

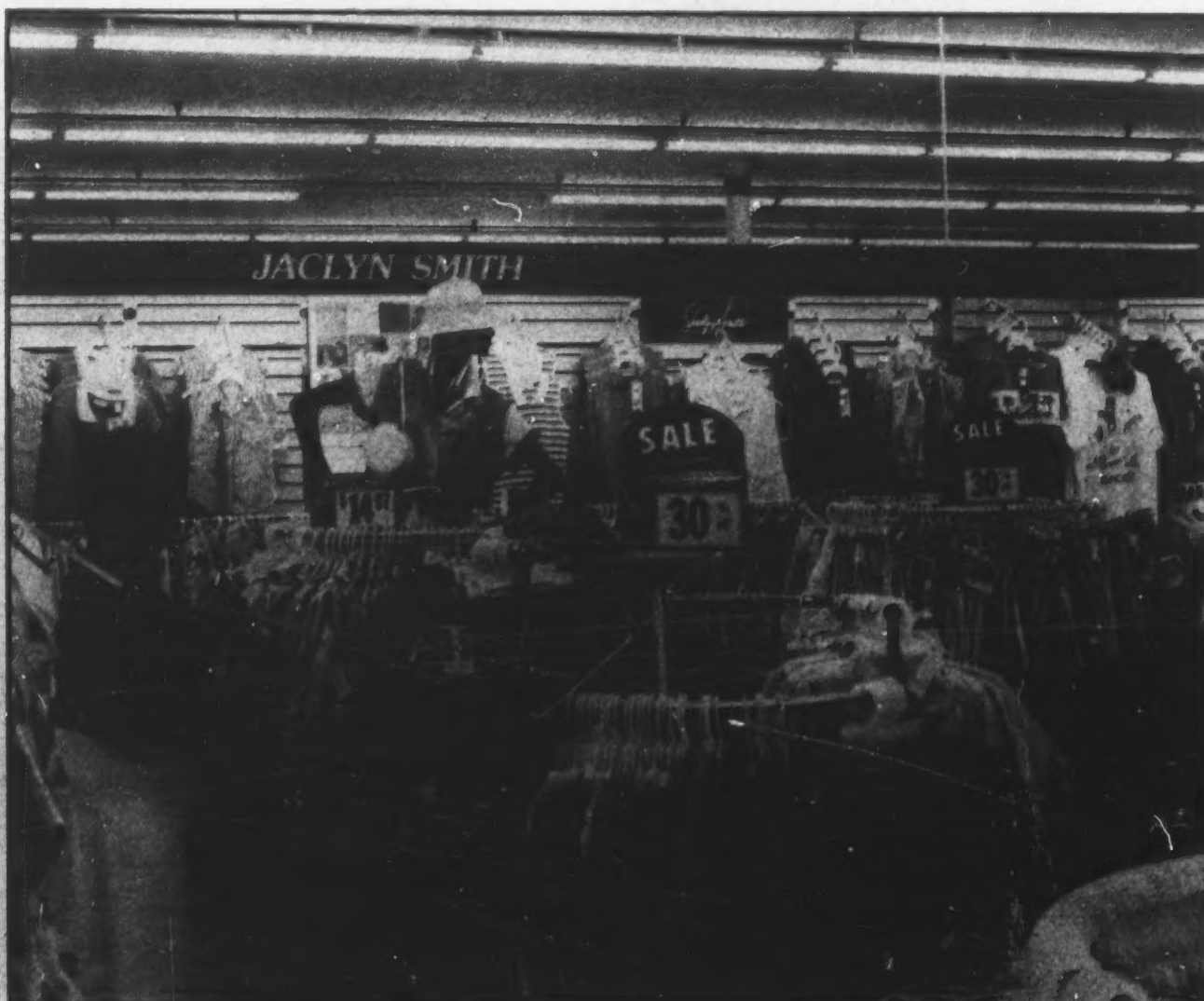
Waldenbooks will also expand its Brentano's operation, an upscale book store positioned in high fashion malls.

The Pay Less Drug Stores Northwest division's test is Wonder World, a format that combines the chain's core super drug store business with a convenience food operation.

K mart's specialty business also extends to Canada, where its 142 Bargain Harold's offer special purchase merchandise in communities too small to support traditional variety stores. The company is testing eight Bargain Harold's in upstate New York as a possible vehicle to succeed the Kresge and Jupiter variety store operation, which was sold to McCrory's earlier this year.



K mart plans to open about 40 new stores this year as part of the anticipated launching of 120 units to 140 units during the next three years.



K mart is testing a boutique for cosmetics—adjacent to apparel and jewelry—in about 50 stores to develop a synergy between these categories. (DSN photos)

Wal-Mart Sets Hot Growth Pace; Readies Hypermarkets

BENTONVILLE, Ark. — Wal-Mart's story can best be told, perhaps, by comparing two past *DSN* headlines. "Wal-Mart Sets Its Sights on \$8.3 Billion in 1985" read a July 1985 headline.

Contrast that with this headline, printed last month: "Walton Announces Stock Split; Sees Sales Topping \$19 Billion." Wal-Mart eventually exceeded its 1985 prediction by \$151 million; there's little reason to suspect that it won't reach its more recent projection (for fiscal 1989) with equal ease.

For 1987, Wal-Mart estimates sales in excess of \$13 billion, up 41 percent from a record \$11.9 billion in the previous year. The company's sales have grown an average of 37 percent a year over the last decade, from a 1978 total of \$678.5 million. Net income last year nearly matched that figure, at \$450 million, up 37 percent from the previous year's figure of \$327.5 million.

Last year, sales at Wal-Mart's discount stores climbed 33 percent to \$10.2 billion. With its rapidly expanding Sam's Wholesale Club division included, Wal-Mart sprinted past the 1,000-store mark in 1986, ending the year at 1,029 units, up from the previous year's 872 units. The company expects to have in excess of 1,175 total units by the end of this year.

New Wal-Mart Formats

Included will be two new Wal-Mart formats: the much-heralded 200,000-square-foot hypermarket concept, which will include grocery, restaurant and specialty outlets, and smaller 150,000-square-foot versions, to be called Wal-Mart Super Centers. The first hypermarkets will open in Dallas, Topeka, Kan., St. Louis and Arlington, Tex. The smaller versions will premiere near St. Louis, then at sites in Oklahoma and Missouri.

And the impressive performance figures continue: Same store sales



Sam Walton,
chairman



Dave Glass,
president and CEO



Jack Shewmaker,
vice chairman and CFO

rose 13 percent last year, while operating expenses as a percentage of sales dropped for the fifth straight year, to 16.9 percent. Total retail space will add up to some 75 million square feet by the end of the year, more than doubling the total of five years ago. The company operates three new distribution centers, totaling over 2.1 million square feet. The rarely mentioned Helen's, dot and Special Divisions segments accounted for over \$1 billion in sales.

Wal-Mart has not reached these levels without creating at least some controversy. Two K mart employees are suing the company after a Wal-Mart store manager had them arrested for checking prices in his store. The K mart employees charged that Wal-Mart employees lied to the arresting officers.

More significantly, Wal-Mart has been accused by manufacturers' representatives, who act as suppliers' sales forces in return for a percentage of their sales, of attempting to put them out of business. According to several of the representatives, none of whom wished to be identified, Wal-Mart has notified manufacturers that it will deal with principals only, effec-

tively cutting off significant portions of reps' incomes.

Wal-Mart has denied the charges against them, but at a recent shareholders meeting, Ames president Peter Hollis acknowledged that his company was watching the case closely.

First quarter figures bear out management sales and earnings predictions. Sales were up 40 percent to \$3.3 billion from \$2.34 billion in 1986. Company profits soared 50 percent to \$110.4 million.

As stunning as chainwide performance has been, the phenomenal growth of Sam's Wholesale Club stands out. Even in an industry typified by rapid expansion and glittering sales figures, Sam's explosion has

been one of discounting's biggest stories. From gross sales of \$221.6 million three years ago, Sam's exploded into the billion dollar club last year with sales of \$1.68 billion.

The chain has continued that growth performance this year, including the purchase of the 21 locations of competitor Super Saver Stores. Even more remarkable in the fledgling industry, Sam's has reportedly been profitable as it grows.

What's Wal-Mart's outlook for the next year? Growth, growth and more growth. As the Retailing Razorback himself, chairman Sam Walton, put it, echoing the Carpenters' hit song of the early 1970s, "We've only just begun."

Wal-Mart

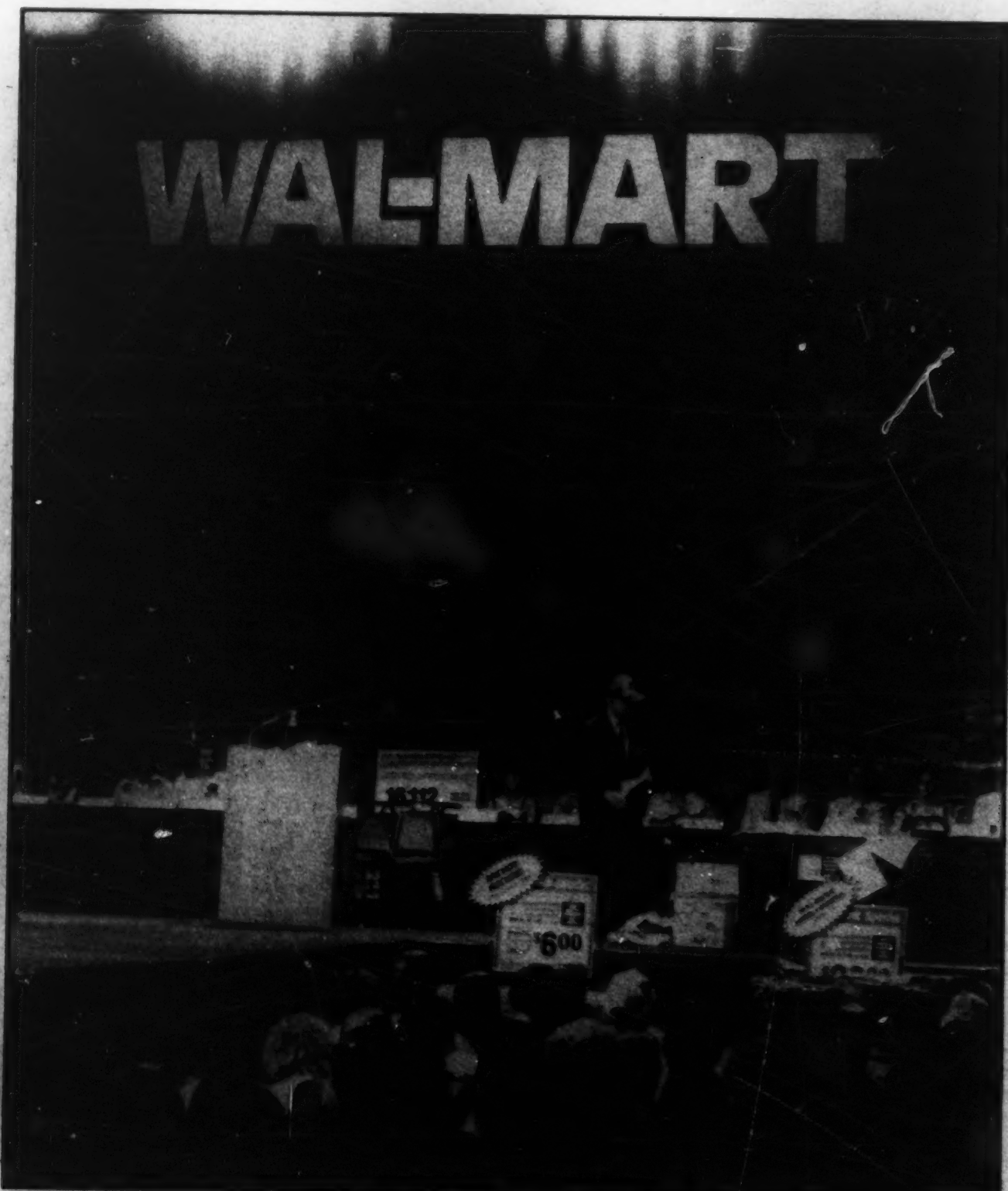
	1986	1985	% Change
Sales* (In Millions)	\$10,200	\$7,674	33%
Operating Income (In Millions)	846.0	603.6	40
Stores*	980	859	14

*Includes Wal-Mart stores only.

Source: DSN research



Wal-Mart expects to have more than 1,175 total units by the end of 1987, including the much-heralded 200,000-square-foot hypermarket concept.



Pep rally atmosphere pervades Wal-Mart's annual shareholder meeting. Pictured, Walton addresses the crowd.

(DSN photos)

Target Assimilates Gemcos; Eyes Pacific NW Expansion

MINNEAPOLIS — Target is scheduled to open the first wave of its 50 remodeled Gemco stores this month as the company looks to open a total of 74 stores in 1987.

The Gemco-converted locations and the new stores give Target a stronger presence in existing markets, particularly Southern California. In Los Angeles, 23 stores will be added, bringing the total there to 53. Target is also aiming at the San Francisco Bay area, where 12 stores are slated to open by the end of the year.

Target's parent, Dayton Hudson Corp., acquired over 78 Gemcos from Lucky Stores for about \$440 million in late 1986. Over 20 of the Gemco stores were sold off by Dayton Hudson to real estate interests. The remaining stores then faced extensive remodeling: Although the generally 100,000-square-foot Gemco stores were akin in size to the typical Targets, the interiors of the stores held no similarities.

In addition to beefing up the Southern California market, the Gemco-converted stores also give Target a chance to enter the San Francisco Bay Area and the state's Central Valley region. The upscale retailer is also scheduled to open three stores in Las Vegas and six in metro Detroit.

This year Target announced it is also interested in entering the Pacific Northwest, where it plans to have up to 35 units by 1993. The first group of stores is slated to open in the fall of 1988, when nine stores will open in Washington and another three will open near Portland, Ore.

POS System Expanded

As the company looks to grow from its year-end total of 246 stores to 320 stores, its POS scanning system is also scheduled to be expanded. After a test period in 1986, Target moved forward with the program and anticipates that 110 stores will be on the system by year-end. All of the California stores are scheduled to have the equipment this year, and Target expects the scanning project to be completed storewide by early 1989.

Technology innovations were also an important aspect of Target's new distribution center at Pueblo, Colo., opened in 1986 to service about 50 stores in Wyoming, South Dakota, Montana, Arizona and Colorado. The distribution center represents the company's fifth, as Target also has centers in Los Angeles, Minneapolis, Little Rock, Ark., and Indianapolis.

To improve customer service, Target now assigns an employee to the entrance of checkout lanes to answer inquiries and direct customers.

The company noted that private label merchandise has accounted for a growing percentage of Target's sales in recent years. That share is expected to increase as the company supplements its existing labels, such as the Greatland label used on outdoor apparel, boots, backpacks and all-ter-

rain bicycles. In 1987, Target is expected to expand its private label program beyond its apparel and sporting goods business to include hard line products.

The company is also planning to take advantage of a mini baby boom. In its annual report, Target noted that "with the birth rate at its highest level in more than 20 years, America is experiencing a baby boom echo." Postulating that there are now more than 34 million children under the age of 10, the company said it plans to respond to this demographic trend by expanding its assortments of products geared to today's children.

This means renewed emphasis on placemats, drinkware and dinnerware for children in the tabletop category. The trend will also be reflected in brightly colored furniture, bed linens, curtains and pillows with juvenile themes.

Financially, Target helped carry Dayton Hudson during fiscal 1986 and into the first quarter of this year. At year-end, Target's revenue topped the \$4 billion mark, an increase of 11 percent, while comparable store revenues rose 5 percent. Operating profits for the year rose 12 percent to \$311 million, as the company added 21 stores during the year.

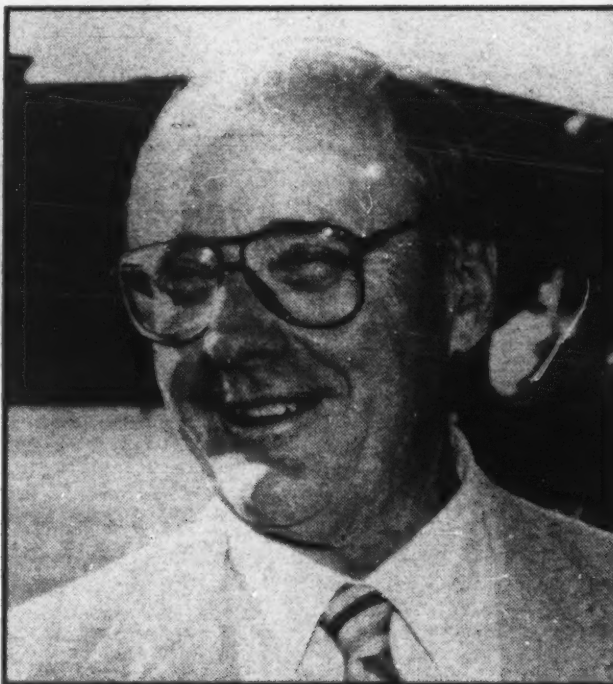
The strong showing helped to offset Dayton Hudson's promotional retailer, Mervyn's, which struggled during the year as it went through management restructuring and low-pricing strategies.

During the first quarter of fiscal 1987, Target showed an 18 percent sales increase overall and an 8 percent increase for comparable stores. These increased revenues totaled \$1.05 billion, almost half of the \$2.15 billion the parent company posted for the quarter.

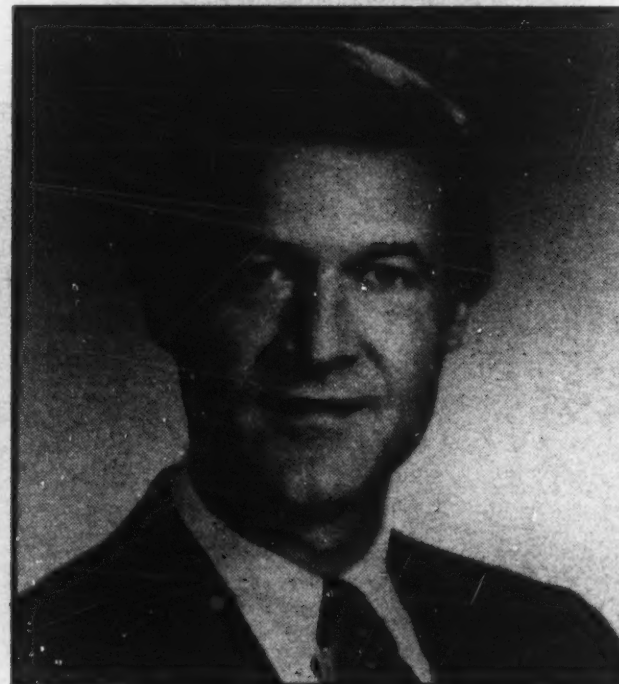
Commenting on Target's importance to the parent company, Dayton Hudson chairman Kenneth Macke noted in Dayton Hudson's annual report that "1986 was a year of both record performance and strategic significance. Target undertook the most important real estate transaction in its history."

Target			
	1986	1985	% Change
Sales (In Millions)	\$4,355	\$3,932	11%
Operating Income (In Millions)	311.0	277.8	12
Stores	246	226	9

Source: DSN research

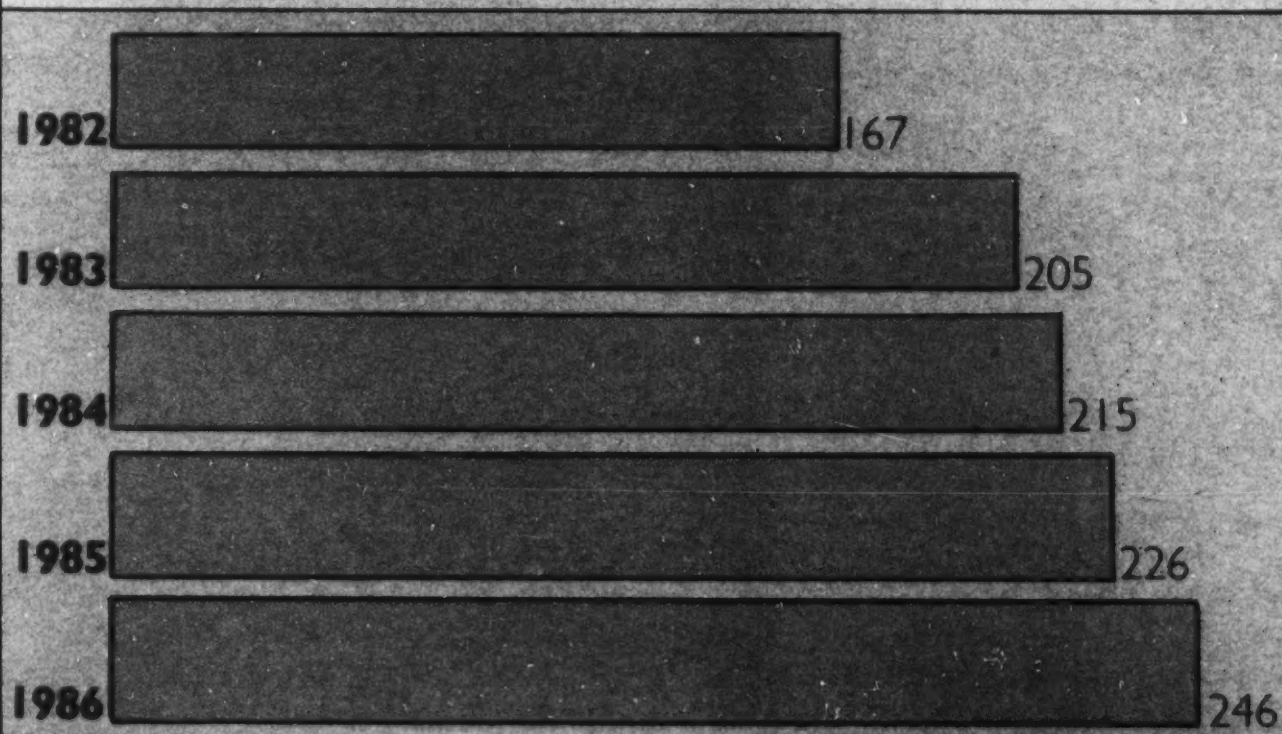


Bruce Allbright,
chairman and ceo



Robert Ulrich,
president and coo

Target Store Count: 1982-1986



Source: Company report

Target Stores



Source: Company report



Target will add 23 stores in Los Angeles, bringing the total there to 53 by the end of 1987.

(DSN photos)

Despite Problems Zayre On Pace for \$8B Sales by 1989

FRAMINGHAM, Mass. — The first half 1987 has been a turbulent time for Zayre Corp., the discount, specialty and warehouse store chain headquartered here.

Following a disappointing profit report in 1986, the company has seen the spin-off of its profitable specialty operations (T.J. Maxx, Hit or Miss, and Chadwick's of Boston), the resignation of the chairman of its discount store division and rapid expansion of its reportedly unprofitable warehouse club division consisting of BJ's Wholesale Club and HomeClub.

Reported Sales Gains

However, the company has reported sales gains of nearly 20 percent through the first third of 1987, a turnaround of sorts for the troubled giant, which is the fourth largest discount chain in the country.

Fiscal 1986 saw a drop in profits in the second quarter and third quarter, which was not offset by the company's strong fourth quarter. Net income dipped 6 percent to \$89 million, from the 1985 figure of \$94.6 million, although sales rose 32.6 percent on the year to \$5.35 billion.

Warehouse Clubs

The warehouse club's segment reported pretax losses of nearly \$12 million in 1986, \$8 million of which was attributable to pre-opening expenses as both BJ's and HomeClub expanded aggressively. The warehouse club industry as a whole has lost money during rapid growth over the past two years. Zayre attributes the balance of the losses to poor performance of three Chicago BJ's and high inventory shrinkage in both of the companies.

Zayre Stores, which last month lost its chairman when Malcolm Sherman resigned, reported reduced pretax earnings of \$129.9 million, down from \$141.9 million the previous year. Over the past three years, same store sales increases have de-

clined regularly, from a 10.4 percent gain in 1984 to a relatively weak 4.3 percent in 1986.

The company pointed to the same store sales percentages, reduced margins, and the negative impact of LIFO provisions as reasons for the chain's disappointing 1986 performance.

T.J. Maxx and Hit or Miss, Zayre's specialty apparel retailers, showed steady if unspectacular growth last year. However, the two (including Hit or Miss catalog division, Chadwick's of Boston) are being spun off to form a new company, TJX Corp., which will offer stock to the public through the New York Stock Exchange. The specialty division recorded pretax profits of \$104.5 million on sales of \$1.39 billion in 1986.

A Zayre spokesperson said that the company was on schedule in its five-year plan to increase sales to \$8 billion by 1989 (1986 total sales were \$5.35 billion). "We're still on target for all divisions," he said, "and have no plans to curtail our growth."

Growth Plans

Zayre plans to grow significantly in 1987. Zayre Stores, with 362 locations at year-end, plans to add 25 stores this year. Hit or Miss, with 461 stores, plans to open 50 more, and T.J. Maxx plans to add 35 units to its 226-store total.

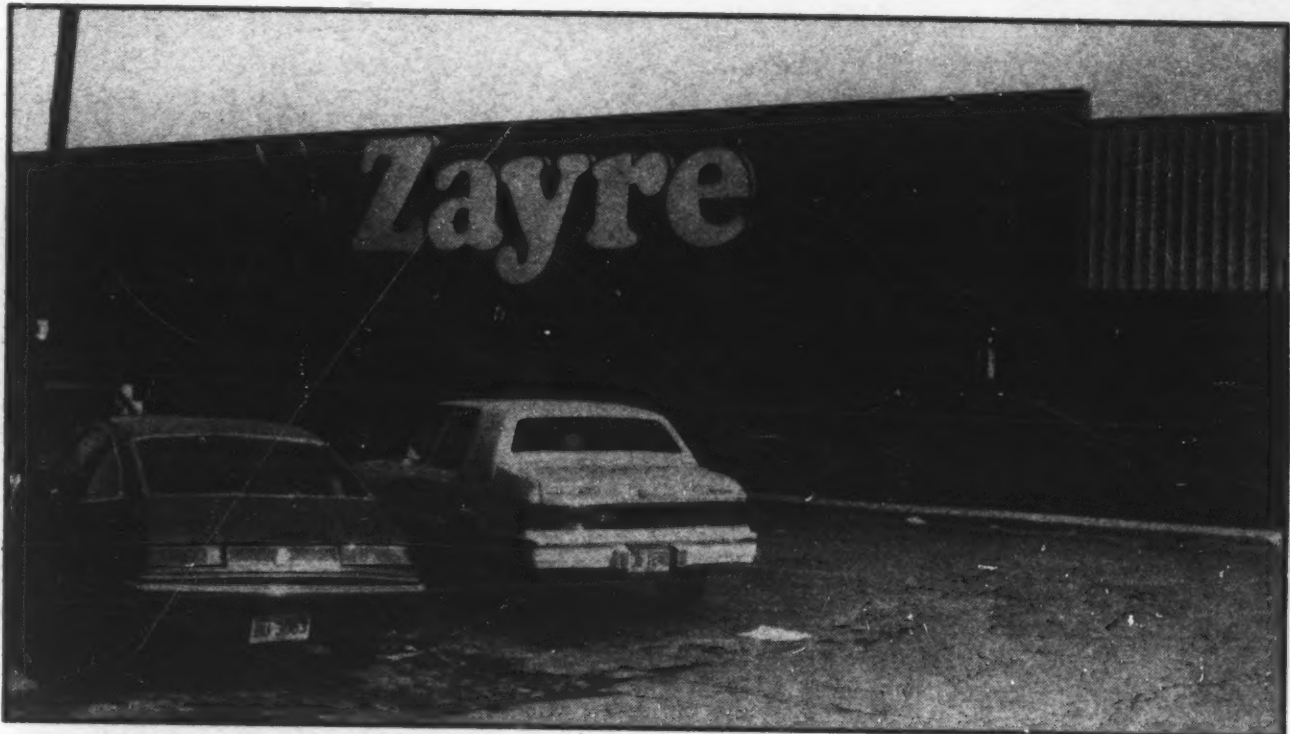
Both warehouse clubs have grown quickly over the past 18 months, and BJ's will add at least six new warehouses to its total of 15, while HomeClub will grow by eight locations, to a total of 36. The segment will account for well over a billion dollars in sales this year, up dramatically from a mere \$68 million in fiscal 1985.

The company is also planning the introduction of two new distribution centers, one in Florida, to serve its far-flung (42-state) retail network. The two will total about 1.7 million square feet.

Some industry observers said that

Zayre			
	1986	1985	% Change
Sales (In Millions)	\$3,046	\$2,638	15%
Net Earnings (In Millions)	129.9	141.9	(8)
Stores*	362	337	7

*Includes Zayre discount stores only. Source: DSN research



Zayre plans to grow significantly in 1987. Zayre Stores, with 362 locations at year-end, plans to add 25 stores this year.

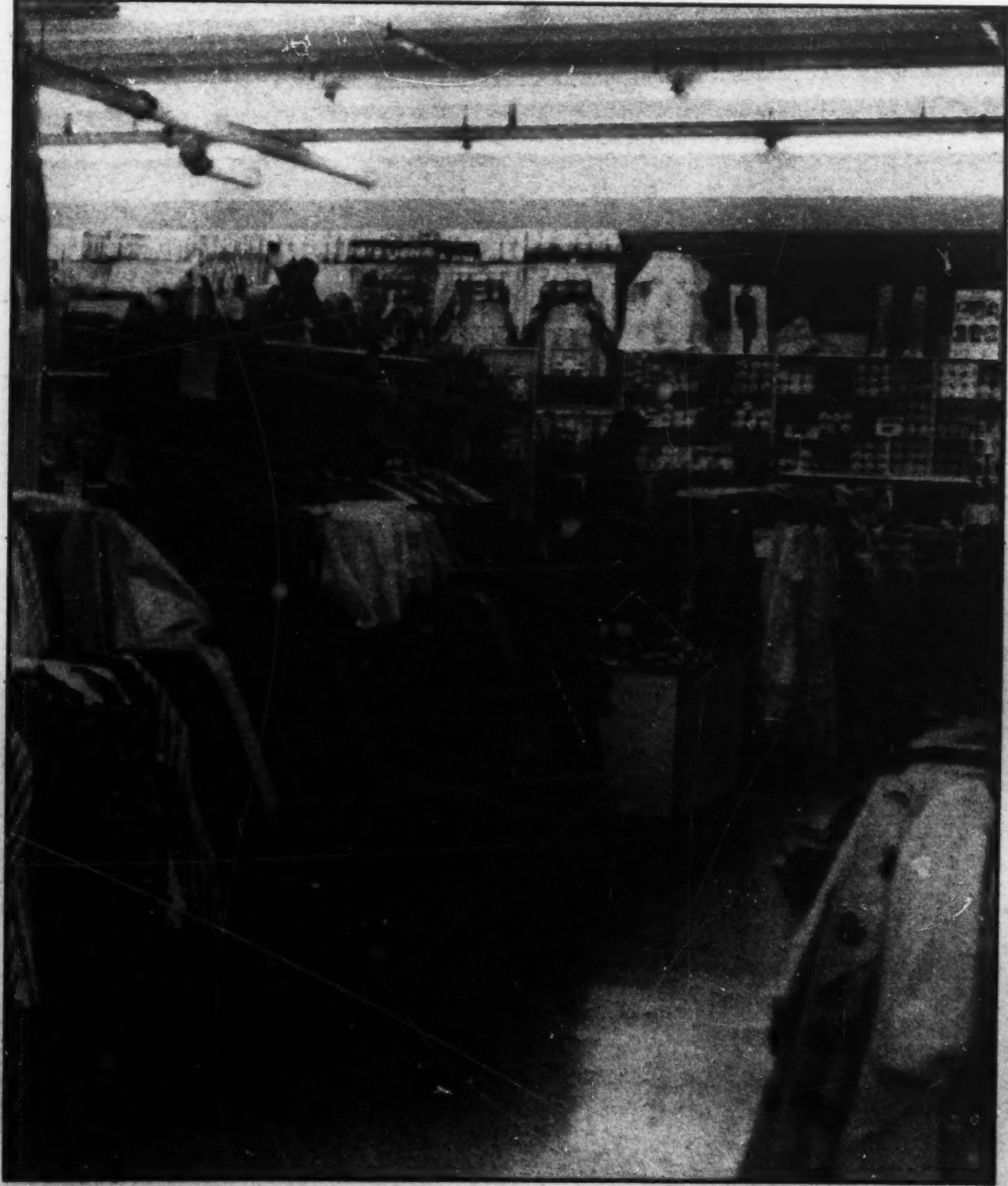
Zayre's poor performance in 1986 may have been at least partly due to its slowness in upscaling. Competitors quicker to the punch may have stolen market share while Zayre equivocated.

One supplier noted that Zayre was left with little choice but to compete on price alone, which cut into its already slim margins significantly.

If that is so, the company seems to have made up some ground with increased renovations of older stores and a more fashion-forward presentation strategy. However, its competitors have also stepped up their upscale programs, so making up lost ground will be a challenge in 1987.



Maurice Segall, chairman



Zayre's plans for the coming year include a more fashion-forward presentation strategy, as well as increasing renovations of older stores.

(DSN photos)

Price Club Plans 10 Locations; 3 Replacement Sites in '87

SAN DIEGO — Price Club pushed forward into 1987 with its greatest expansion plans to date, as the membership warehouse club leader faced increased competition nationwide, including in its home base in Southern California.

Currently, the originator of the membership warehouse format operates 29 cash and carry wholesale/retail locations, having already opened two new warehouses this year. And ten new locations and three replacement sites are slated to open by the end of 1987.

Company Growth

Much of the company's growth will be in the West—in Northern California, Southern California and Arizona—while the remainder of Price Club's expansion is scheduled for the East Coast, including markets in New York, New Jersey, Maryland and Connecticut.

To support the company's growth, \$200 million in convertible subordinated debentures was offered and issued in February. According to the company, the funds are scheduled for "site acquisition and development of warehouses, and in the acquisition of land for subsequent warehouses."

In March, the Price Club tried to fortify its efforts in New York with the purchase of the 32-unit TSS-Seedman's discount chain with an initial payment of \$50 million. However, in April the deal fell through,

quenching the possibility of Price Club being able to open some 13 warehouses in metropolitan New York alone by year's end.

According to the discounter's chairman, George Seedman, the purchase by Price Club of the TSS-Seedman's discount stores was canceled because "it was their intention [Price Club's], which was not expressed to us at the time that we made the contract, to change the character of the stores."

Continued Competition

So while Price Club faced a rejected offer in New York, competition continued to heat up this year in the Southern California market where the area's players grew to include Costco, PACE, Price Savers and Saveco. However, the industry leader remains undaunted as Price Club continues to turn a profit while some of its competitors struggle to raise themselves out of the red.

Price Club closed its fiscal 1986 year with net earnings of \$58.9 million on sales of \$2.8 billion. Sales in 1987 should push the company to a \$3.4 billion level based on the company's first three quarters.

New Services

This year has seen the introduction of two new services at the original Morena Blvd. Price Club warehouse. In the spring, an optical department was introduced, followed by a phar-

Price Club			
	1986	1985	% Change
Sales (In Millions)	\$2,800	\$1,834	53%
Net Earnings (In Millions)	58.9	46.0	28
Stores	34	24	42

Source: DSN research



Much of Price Club's growth for 1987 will be in Northern and Southern California, and Arizona, while the remainder is scheduled for the East Coast.

macy in late May.

Although not highly publicized beyond in-store flyers, both operations allow Price Club to go after a new market segment. Currently, both of these operations are being run out of the one location. And the company is

not disclosing any of its future plans at this time.

And while it follows Costco's footsteps in terms of the pharmacy operation, to date no other membership warehouses appear interested in pursuing these additional services.



Price Club operates 29 cash and carry wholesale/retail locations and it has already opened two new warehouses this year.

(DSN photos)

Service Merchandise Focuses on Core Catalog Business

NASHVILLE, Tenn. — This is a make or break year for the \$2.5 billion cataloger Service Merchandise.

The troubled company has stripped down its operation to its core catalog business by closing down its Mr. HOW warehouse home center chain to concentrate on its 303 showrooms, along with the projected opening of another seven stores.

The key question is whether Service Merchandise's getting back to its basic retailing concept—as president and chairman Raymond Zimmerman described the company's costly retrenchment—will be enough to return the cataloger to its past glories when it was one of the most successful showroom chains.

Shutting Mr. HOW

Shutting the Mr. HOW division at a net loss of \$29.8 million stems a major source of Service Merchandise's \$46.9 million in red ink, but the company still has to stop the hemorrhaging of \$17.1 million in losses from its continuing operations.

The company received a big boost in its retrenchment efforts last month through the negotiating of two financial agreements.

The first was the successful renegotiation of its revolving bank credit line, obtaining \$147 million at 1.5 percent over prime, due at the end of March 1988. This short-term funding for working capital replaced \$158 million in revolving bank lines of credit that matured during the past three months of the year.

The second was authorization from its lenders to mortgage some of the company's unmortgaged properties to obtain up to \$75 million for working capital.

An executive said the company needed \$11 million less in short-term bank financing because cash flow during the first quarter had been greater than expected, and the cataloger hadn't needed to borrow then.

The executive said Service Merchandise expects monies from these agreements along with cash flow from operations to provide sufficient resources to meet its financial requirements for the fiscal year.

On the merchandising and operational side, Service Merchandise's recovery endeavors focus on heightening the cataloger's image among consumers as a sharp priced retailer of name brand hard lines, with a strong in-stock position for the approximately 8,000 sku's featured in its basic book and promoted through its stepped-up flyer and newspaper ROP advertising effort.

The company is also putting a greater emphasis on technology to improve its operations and reduce its costs. Among the steps being considered are turning its Silent Sam customer order unit into an interactive computerized terminal that will also handle credit card payment, and upgrading its telephone ordering system to make it easier for shoppers to phone in orders.

These moves are expected to allow Service Merchandise to process a greater number of orders without increasing its store-level staffing. The company has trimmed its headquarters staff, particularly among support services. It has also reduced distribution costs through the inauguration of an automated distribution center in Newburgh, N.Y., to serve its 50-plus stores in the New England and Mid-Atlantic states areas. The Newburgh facility is seen as a model for distribution centers for other markets.

The chain's financial difficulties have resulted in what Zimmerman calls a "reduced rate" of growth of seven new showrooms (compared with 10 showrooms in 1986 and up to twice that number in prior years). Zimmerman denied security analysts and trade reports that the cataloger planned to close showrooms.

One Service Merchandise source explained that the cataloger was trying to make its showrooms more productive and was interested in leasing out excess space in larger units. "If someone wanted the entire store," he said, "we would consider relocating that showroom to a smaller store if we found the right site."

The merchandising and operations problems that Service Merchandise is trying to overcome are evident from its performance in 1986.

Company sales, excluding revenues from the closed Mr. HOW arm, amounted to \$2.5 billion, up 12.6 percent from \$2.2 billion in 1985, but its bottom line witnessed the wrong kind of turnaround, going to a net loss of \$46.9 million from a net income of \$10.7 million.

The reason for last year's steep plunge into an unprofitable operation was twofold: the \$29.8 million net loss from the Mr. HOW closing and—more importantly—\$17.1 million in losses from its continuing core catalog business.

While continuing operations recorded a net loss in 1986, the ongoing showroom business in 1985 produced net earnings of \$24.3 million.

Service Merchandise cited two factors for the losses from continuing operations. One was generally weak retail sales with almost flat same-store volume. To counter this, the cataloger engaged in heavy promotions, spending \$93.9 million, or 3.7 percent of sales, on advertising, up 29.4 percent from \$72.5 million, or 3.2 percent of sales, in 1985.

The other was the two-year adverse impact from the acquisition of H.J. Wilson. While the 80 former Wilson's contributed to a full year of sales and helped to boost Service Merchandise's volume, the acquisition also had a host of negative im-

Service Merchandise			
	1986	1985	% Change
Sales (In Millions)	\$2,527	\$2,244	13%
Operating Income (In Millions)	(33.7)	32.1	—
Stores	300	287	5

Source: DSN research



Service Merchandise will concentrate on its 303 showrooms this year, along with the projected opening of another seven stores.

pacts: the 18-month long liquidation of non-compatible merchandise—which accounted for about 60 percent of Wilson's inventory—drove down gross margins, while buying and occupancy costs rose due to sales in the ex-Wilson's being about 20 percent below the company's average of about \$8 million.

Liquidating the non-compatible Wilson's inventory has had two positive effects. It resulted in Service Merchandise carrying less stock; concurrently its assortment is more current, with a greater percentage financed by vendors so that the cataloger has less need for short-term financing.

Service Merchandise plans to remodel a number of the acquired showrooms to its prototype as part of the effort to further boost sales while reducing costs.



Ray Zimmerman, chairman



Service Merchandise's recovery endeavors focus on heightening the cataloger's image among consumers as a sharp priced retailer of name brand hard lines, with a strong in-stock position for its approximately 8,000 sku's. (DSN photos)

Toys "R" Us Focuses Growth in Existing, New Markets

ROCHELLE PARK, N.J. — Toys "R" Us believes that, in the United States alone, it can expand its number of stores to 700.

If the chain's current growth rate in the United States is any indication, the chain could reach this 700 store goal in the next 11 years.

Worldwide, TRU could be generating a total of \$5.4 billion in toy sales by 1995, based on current growth patterns.

TRU increased sales 23.7 percent to \$2.44 billion in its 1987 fiscal year ended Feb. 1, compared to \$1.98 billion for its previous fiscal year. Its toy store sales represent about 93 percent of that figure, increasing from \$1.84 billion the previous fiscal year to \$2.27 billion.

Other Operations

The company also currently owns and operates 52 Kids "R" Us children's clothing stores. KRU stores last year accounted for 5.4 percent of total company sales, or \$132 million. The company also operates four department stores principally selling apparel and other soft goods, which account for the remaining 1.6 percent, or \$39 million of company sales.

Net earnings for the company increased 27 percent in fiscal 1987 to \$152.2 million, from \$119.8 million. Comparable U.S. toy store sales rose 8.5 percent.

During 1986, TRU opened 38 toy stores in the United States and entered the Cleveland market with six stores. Internationally, it opened six additional Canadian toy stores, three in the United Kingdom and its first stores in Hong Kong and Singapore. By year-end, it had 295 toy stores in operation in 31 states, Canada, the United Kingdom, Singapore and Hong Kong. Twenty KRU stores were opened during 1986, including the stores' entry into Chicago.

As part of the company's long-range growth plans, TRU has been increasing its toy store square footage by expanding its penetration in existing markets and by entering at least one new geographic region each year. TRU utilizes 20 warehouse/distribution centers, 18 in the United States and two overseas. The DCs average approximately 250,000 square feet each.

During 1986, TRU had instituted a



Charles Lazarus,
chairman and CEO



Norman Ricken,
president and COO

number of new store and warehouse programs that resulted in cost savings. Expenses as a percentage of sales declined by almost 2 percentage points last year, from 20.7 percent to 18.8 percent.

A merchandise tracking system has helped the company reduce costs by tracking unit sales by item and by store, allowing easy access for buyers to obtain the status of items in stores and distribution centers.

The continuing installation of UPC scanning at checkout lanes in stores has also reaped benefits for the company. According to a company spokesperson, the chain has decided to go with hand scanning rather than counter scanning after deciding that the hand scanner is more suited to company needs.

The company said that by the end of May the scanning system was fully operational in approximately 20 percent of its U.S. toy stores. The chain

is scheduled to be substantially converted by this November and completely by early 1988. The company expects to lower store payroll costs, reduce inventory shortages and maximize business at peak hours with the scanning system.

In 1987, TRU plans to open 45 toy stores in the U.S. in such new markets as Pittsburgh and Phoenix, and 13 international toy stores in Canada, the United Kingdom and West Germany, a new market. The company is opening 30 KRU stores during 1987. Nine of these stores have already opened and will enter the new market of Detroit. Total KRU stores by year-end will be 73.

During 1987, capital requirements for real estate, store and warehouse fixtures and equipment, leasehold improvements, betterments, and other additions to property and equipment are estimated to reach \$300 million. This estimated figure

includes real estate of \$200 million, which the company plans to finance primarily through operations, cash balances, and 8.25 percent sinking fund debentures.

The company is looking forward to the rest of 1987 due to the high technology product introductions at last February's Toy Fair, which it believes will create strong consumer interest. The continuing product expansion from competing vendors will be favorable for TRU because its 46,000-square-foot stores are large enough to benefit from this diversity.

TRU expects its effective income tax rates to decline from 46.4 percent to about 41 percent due to lower federal income tax rates in 1987. From these cost and tax savings, the company feels it will be able to strengthen its position as the low cost retailer in the toy business and plans to further lower prices in 1987 to obtain large market share gains.

If Toys "R" Us maintains its current growth rate, the chain could reach its goal of 700 stores in the next 11 years.

TRU maintains merchandising and operational uniformity in all its stores, an essential ingredient for achieving long-term consumer loyalty in all geographic markets. Analysts that follow the company believe that a true synergism exists between the TRU and KRU stores with many apparel units in close proximity.

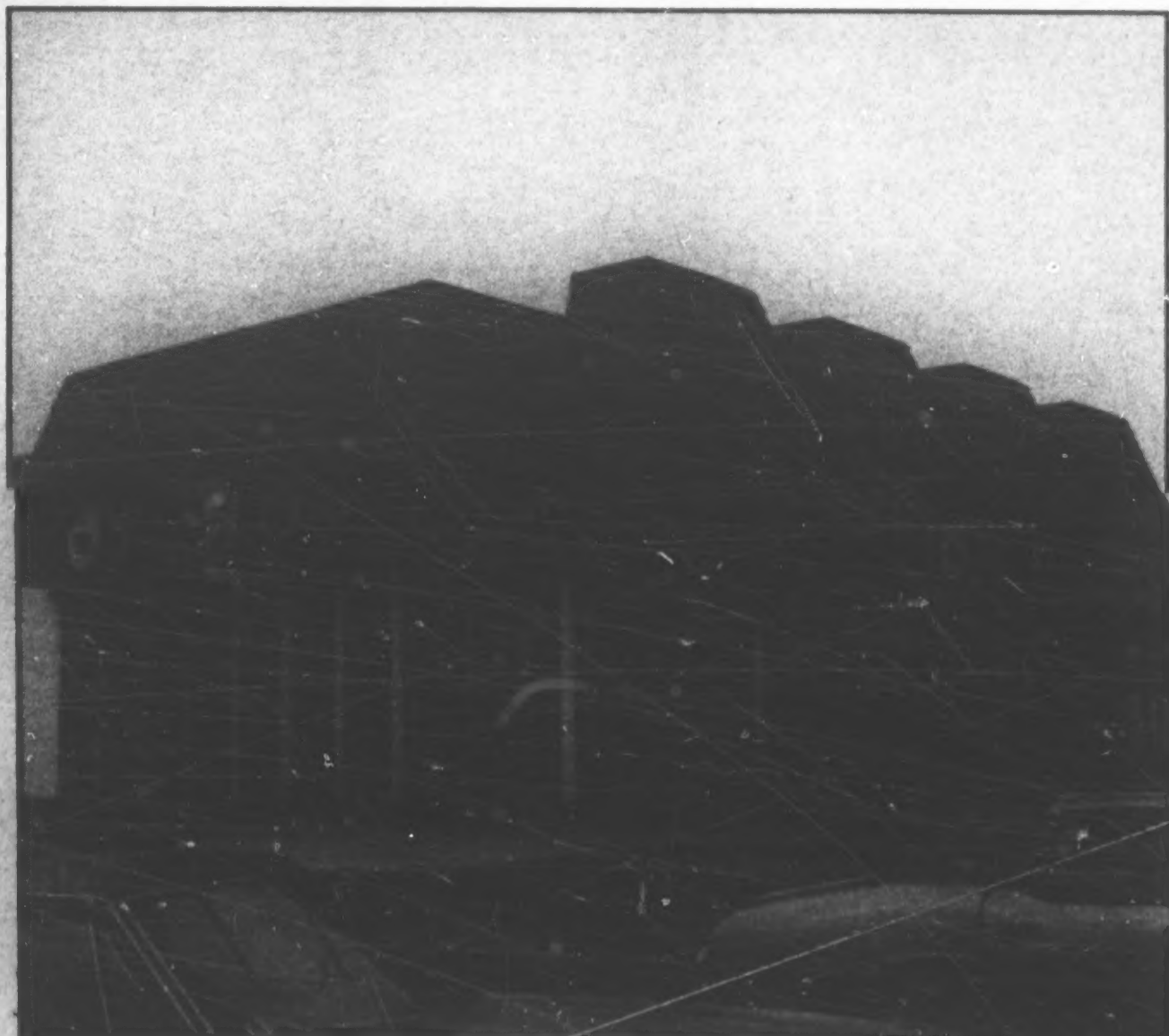
Kidder, Peabody and Co., a New York investment firm that follows the toy chain, projects TRU to achieve earnings gains of close to 40 percent for the first three quarters of fiscal 1988.

The company's net sales for the first quarter, ended May 3, were \$474 million, about 28.7 percent higher than the first quarter last year. Net earnings in the quarter were \$14.5 million, compared to \$10.3 million for the prior year's quarter. First quarter comparable U.S. toy store volume was up 11 percent over the comparable period last year.

Toys "R" Us			
	1986	1985	% Change
Sales (In Millions)	\$2,270	\$1,840	23.7
Net Earnings (In Millions)	152.2	119.8	27
Stores	295	246	20
Sales and stores figures only reflect toy stores			
Source: DSN research			



Toys "R" Us is looking forward to the rest of 1987 because of the high technology product introductions at last February's Toy Fair.



In 1986, TRU opened 38 toy stores in the United States and entered the Cleveland market with six stores.

(DSN photos)

Best Tightens Jewelry Focus; Continues Store Refurbishing

RICHMOND, Va. — Best Products expects to complete a multi-faceted program this year that will transform the cataloger into a jewelry-oriented hard goods specialty retailer that will "yield improved profitability in the near term."

Chairman and chief executive officer Robert E.R. Huntley asserted earlier this year that "our turnaround program is taking hold. We are a smaller but more profitable company than we were a year ago."

Huntley became the company's top executive earlier this year when Andrew M. Lewis resigned as chairman and ceo. This ended Lewis' 17 years of service in his family-owned business that goes back to the days when Best was just a four-store, \$20 million cataloger.

A key element in making the 194-store Best a "more profitable company" is the chain's sharply improved jewelry merchandising, which has seen this high-margin category's share of sales go to about 18 percent, up from only about 14 percent three years ago. In remodeled stores, jewelry accounts for as much as 20 percent of sales.

Goals for the Year

Besides completing its ongoing refurbishing effort, Best's goals for this year also include obtaining "a moderate sales increase and continued increases in margins," he said. Jewelry is also driving up the margins as this merchandise's gross margins are twice the company's average.

The cataloger's volume in the fiscal year ended Jan. 31 slipped 4.1 percent to \$2.1 billion from \$2.2 billion due to such diverse factors as the closing of 17 showrooms in the second half of the year, a 2 percent slide in same-store volume, renovation work in 39 units, fewer promotions, and the economic downturn in the Sun Belt, particularly in Texas where volume was off \$31 million.

These negative factors, along with losses for the shutting of the 17 showrooms, disposal of the unprofitable Ashby's ladies' apparel arm and an extraordinary loss on the early payment of some debt, resulted in a \$25.6 million net loss last year, compared to \$2.2 million in net income in 1985.

Best's new specialty retailer marketing effort this year focuses on five



Best's new specialty retailer marketing effort focuses on five core categories. The strategy will 'strengthen and enhance the market position we currently occupy so that we become a prime alternative to the price point retailers on the one hand, and the specialist on the other.'

—Robert E.R. Huntley,
chairman and ceo

core categories—jewelry and giftware, home goods, consumer electronics, leisure and juvenile—in each of which the company expects to stake out a "category dominance" merchandising stance that features sharp prices, broad in-depth assortments and customer service.

This strategy, Huntley noted, will "strengthen and enhance the market position we currently occupy so that we become a prime alternative to the price point [discount] retailers on the one hand, and the specialist on the other."



He explained that these two types of retailers have experienced explosive growth in the past two decades, in the process taking market share from traditional showrooms whose merchandise assortment and prices were locked in by the annual catalog.

The new Best will markedly downplay the annual catalog and flyers, once "the definition of the business," turns it into what "we now view only as a tool for customer communications—nothing more, nothing less," Huntley said.

The annual catalog due this fall will be trimmed to about 300 pages from 436 pages last year, in the process reducing sku's about 12.5 percent to 14,000 from 12,000. Flyers will also be down-sized, and the content will change: "We will promote our core categories rather than just items and price. We will create top-of-mind awareness . . . we will convey a message," Huntley said.

Promotional Programs

Promotional programs, meanwhile, will go beyond the mailing lists used for the catalog and employ multiple, broad-reaching vehicles like radio, TV, ROP advertising, and newspaper inserts. Best won't cut its advertising but will rather redirect these dollars. "It's not how much we spend, it's how we spend it," he said.

As for the core transformation program, the steps due to be completed this year include:

- Partly remodel and rename 26 showrooms—a \$10 million endeavor—to conclude the three-year, \$70 million effort to upgrade almost half the chain's showrooms to its newest prototype. That presentation features an upscale look for jewelry along with more clearly defined and easier to shop areas for the four other core categories.

The renaming will mean that all the chain's showrooms will now carry the Best logo, resulting in a national identity for the company and the use of the same name on catalogs, flyers and other promotions in all markets. Previously, the company used as many as six different nameplates for its showrooms.

- Install a price lookup system at the checkouts in all its stores for mass displayed merchandise like toys and sporting goods. A price lookup program was already in use for sample sell merchandise obtained through each showroom's central order desk.

- Add Best Express, which guarantees delivery of merchandise within eight minutes of an order, to 100 stores, including the 26 units refurbished this year. The Best Express system should be installed chainwide by 1988 in all showrooms that have the front-of-store physical space for the program.

- Develop a training program for employees in categories like consumer electronics that need customer service. This will mirror the training program already in use in the jewelry area that Huntley said helped boost sales of this merchandise.

Transformed Showrooms

Best's drive to transform its showrooms into jewelry-oriented hard lines specialty stores has put expansion plans on a back burner; new stores won't be opened until 1988 at the earliest.

However, the company plans to rapidly expand its 11-unit Best Jewelry specialty store arm by opening up to 60 more stores during the next three years. These units will be spotted in markets that currently house full-line Bests to take advantage of consumer recognition of the company's name.



Best's drive to transform its showrooms into jewelry-oriented hard lines specialty stores has put expansion plans on a back burner; new stores won't be opened until 1988 at the earliest.



Best expects to complete a multi-faceted program this year that will transform the cataloger into a jewelry-oriented hard goods specialty retailer. In remodeled stores, jewelry accounts for as much as 20 percent of sales. (DSN photos)

Bradlees Reduces Overhead, Begins to Regain Profitability

BRAINTREE, Mass. — Bradlees' efforts to re-establish itself as a price-promotion discount store—and regain its position as the dominant profit center for its parent, Stop & Shop—show signs of bearing fruit.

Sales for the fiscal year ended Jan. 31 rose 19 percent to \$1.9 billion, from \$1.6 billion in fiscal year 1986. And comparable store sales gained 5 percent.

Other results from fiscal 1987 substantiate a statement in the letter to stockholders from Stop & Shop chairman and chief executive officer Avram J. Goldberg that "Bradlees has fundamentally lowered its overhead expense structure."

Improvement in Profitability

Bradlees contributed 51.4 percent, or \$56.6 million, of corporate operating income for the year, compared to 41.1 percent, or \$30.7 million, the previous year. The improvement in profitability was far greater than its increase in total corporate sales, which increased slightly to 48.4 percent from 47.2 percent for the previous year.

Nonetheless, Bradlees, as a profit center for the supermarket chain, remains far below the commanding position it enjoyed in 1983, when it contributed 83.4 percent, or \$80.5 million, of operating income for the company, and in 1984, when it accounted for 75.4 percent, or \$85.3 million.

Other signs of progress include plans to open 10 stores in 1987 for a total of 172, compared to the gain of eight stores in 1986. In addition, the discounter intends to upgrade a "sizable" number of stores to the standard Bradlees prototype in 1987 after renovating seven last year. The new stores include three this fall in a new market, North Carolina (see DSN, July 6, page 1).

Indicative of its leaner operating

The improvement in profitability was far greater than its increase in total corporate sales, which increased slightly to 48.4 percent from 47.2 percent.



Chairman and ceo Harold Frank was on hand for the opening this spring of a new Bradlees store in Groton, Conn.

structure, Bradlees over the past year has declined to fill the position of president after Harry Kohn Jr. resigned last July, and pressures from its parent to cut costs resulted in the elimination of two senior vice president posts in January. The two senior vps, Edward T. Cooney, personnel and distribution, and Richard S. Silverman, director of stores, have left Bradlees.

In January, executive vp George M. Granoff assumed additional responsibilities for stores, store operations, marketing and sales promotion, on top of his responsibility for all merchandising divisions.

In another corporate cost-cutting measure, Bradlees had to make room for its parent to move corporate offices into its Braintree headquarters. As a further part of cost reduction, Stop & Shop is negotiating to sell its money-losing Almy's unit, a 19-store New England discount chain that it acquired in late 1985.

Citing the ongoing restructuring, a Bradlees spokeswoman said no chain official, including chairman and chief executive officer Harold Frank, would comment for this article.

Bradlees now is well into the third year of what a Prudential Bache ana-

lyst views as a four-year program to cut costs and get back into discounting after falling onto hard times as it attempted to become a full-price "department store with a difference."

Economy measures, though, haven't held Bradlees back from upgrading the point of sale computer system it began installing two years ago. It is phasing in IBM's newest POS system, along with a diagnostic monitor called AUTOSHUNT. The monitor will help curb system downtime by checking the status of each electronic register and the wiring that connects it with a central computer, quickly identifying any malfunctions.

The new POS system will enable the chain to speed customer service

by scanning UPC bar codes, looking up prices for all merchandise and verifying credit almost instantaneously.

To emphasize its discount image, Bradlees is going chainwide with a "Certified Value" program covering about 100 items in various departments. Distinctive black and yellow signs identify items that are "in demand by you, our customers; recognized for quality; and low priced."

In addition, "Front and Center" tables at store entrances enhance the discount image by featuring special weekly bargains on such items as light bulbs.

Another wrinkle in new stores is the installation of service phones sprinkled throughout the store for customer convenience.

Bradlees			
	1986	1985	% Change
Sales (In Millions)	\$1,900	\$1,600	19%
Operating Income (In Millions)	56.6	30.7	84
Stores	162	157	3

Source: DSN research



Signs of progress include plans for 10 new stores in 1987 for a total of 172, compared to eight opened in 1986. This Newark, Del., unit opened in March 1987.



Bradlees intends to upgrade a sizable number of stores to the standard Bradlees prototype during 1987. Seven units were renovated last year. (DSN photos)

Ames' Sees Brighter Future After '86 Shrinkage Problem

ROCKY HILL, Conn. — Ames Department Stores, the 466-unit discount and variety store chain headquartered here, entered 1986 with expectations of another record year. The company had posted record sales and earnings (\$40.4 million net on sales of \$1.5 billion) in 1985 and was in the process of incorporating its recently acquired Murphy's Mart stores through an ambitious remodeling program.

Remodeling began soon after the new year, and by year-end 24 discount stores (17 of them former Murphy's Marts) had been remodeled and 17 new stores opened. In August, former Zayre and Fisher's Big Wheel executive Peter Hollis was named the company's new president, filling a position that had been vacant for nearly a year.

At mid-year inventory, Ames appeared to be headed for a year of steady growth, despite declining sales in its higher-margin apparel departments. However, starting sometime shortly after mid-year, millions of dollars worth of merchandise was apparently siphoned out of the company's Secaucus, N.J., distribution center. By year-end, when the shortage was discovered, the total loss had reached \$18 million to \$20 million.

Ames immediately launched an investigation into the episode, but to date there have been few results. No one knows, for instance, if the missing merchandise even arrived at the warehouse. Management has promised full results of its investigation some time in early September.

The result of the shrinkage was a 33 percent drop in earnings to \$27.1 million, which was a bit less than the 1984 level, on sales of \$1.89 billion. That event has overshadowed the steps Hollis and chairman Herbert Gilman have taken to revamp the company's operations.

Last month's Ames stockholder's meeting hinted at some of these new approaches.

Hollis noted that the company's variety stores (142 Murphy's Marts not converted into Ames stores) accounted for "about \$200 million" in sales last year, but had not met profit expectations. He suggested that these stores would make perfect testing grounds for merchandising experiments or even new specialty retailing concepts.

Hollis also announced that the company was developing a new store prototype for its Ames division and isolated areas the company plans to improve upon through the next year. Apart from obvious security improvements (including one-way-out consumer electronics departments), Hollis listed fashion forward orientation, increased customer service meant to cut back on lines at the cash register, strengthening in-stock position on "most wanted" items, expansion of its everyday low price program and sharpening its merchandising focus as 1987 priorities.

Early on, Hollis said the results are already gratifying. He cited sharp sales increases in additional everyday low price items, such as selected Fisher Price toys, a 72 percent drop in rainchecks, doubled and tripled sales of key hot items, and increased sales from reduced sku's in women's clothing and patio furniture as examples of Ames' revised strategy.

First quarter 1987 results back Hollis up. Net profits were up 20 percent to \$6.95 million on a sales increase of a little over 19 percent to \$448 million, and same store sales jumped 17 percent.

Those results reflect a 1.1 percent of total sales reserve pending results of a mid-year audit. If last year's extraordinary rate of inventory shrinkage does not recur, the profit picture



Ames is strengthening its everyday low pricing programs as one of its priorities for 1987. So far, the chain reports sharp sales increases on those items.

will be even brighter.

Ames' remodeling program has continued unabated, with 28 more stores refinished so far this year. Management expects to complete the updating by next year. According to Hollis, remodeled stores average sales gains of 30 percent and are far more profitable in apparel than in older stores.

The company plans to open 27 new stores this year, of which five have already been inaugurated.

Hollis noted at the meeting that significant inroads have been made in

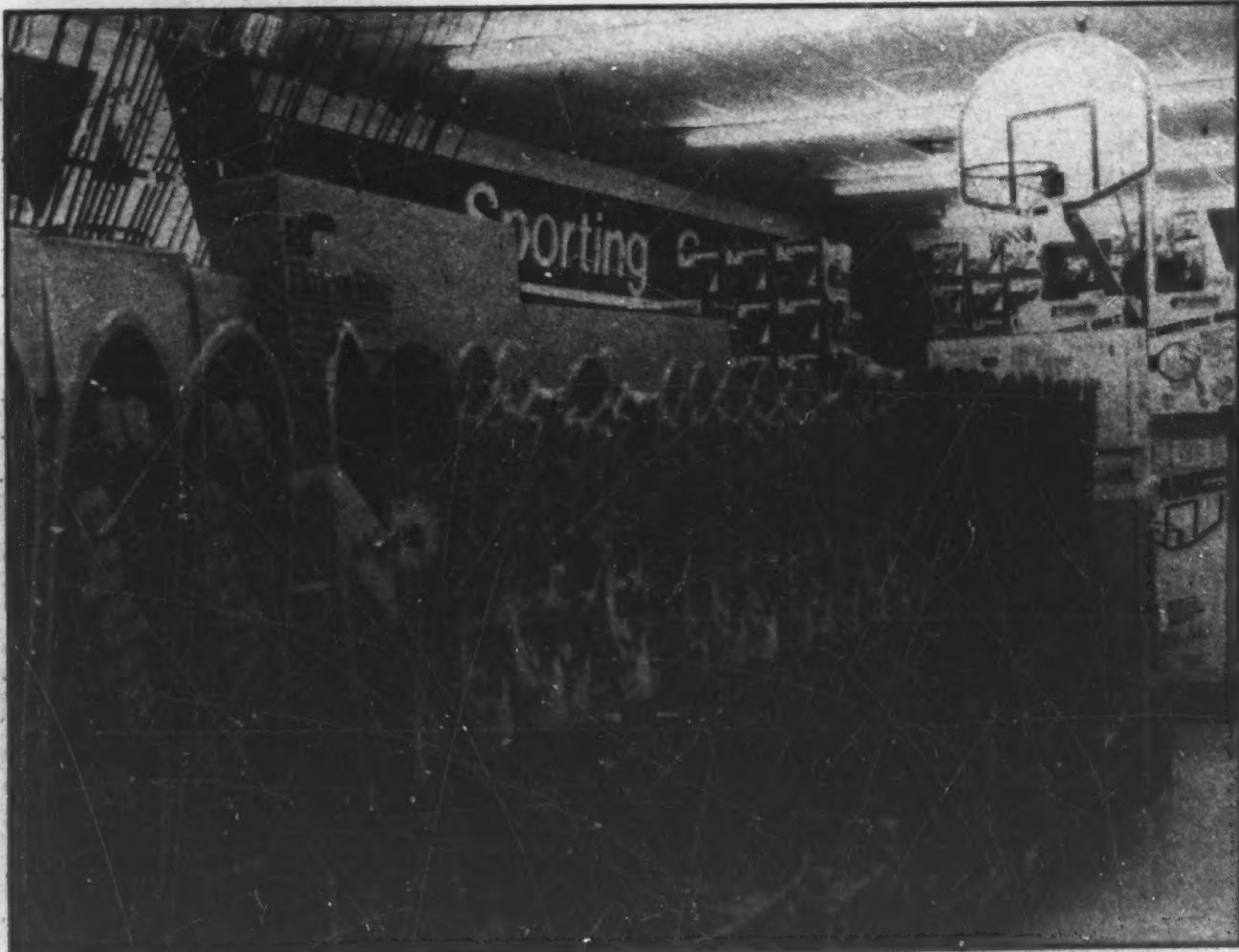
reducing store salary levels (particularly at the remodeled Murphy's Mart locations) and in improving computerized control of inventory levels to avoid alternate overstocked and understocked situations.

In addition to naming Hollis as president, Ames has added several key executives over the past year. They include executive vice president and general merchandise manager Leslie Dietzman, executive vice president James McKittrick, who is in charge of variety stores, and chief financial officer Duane Wolter.

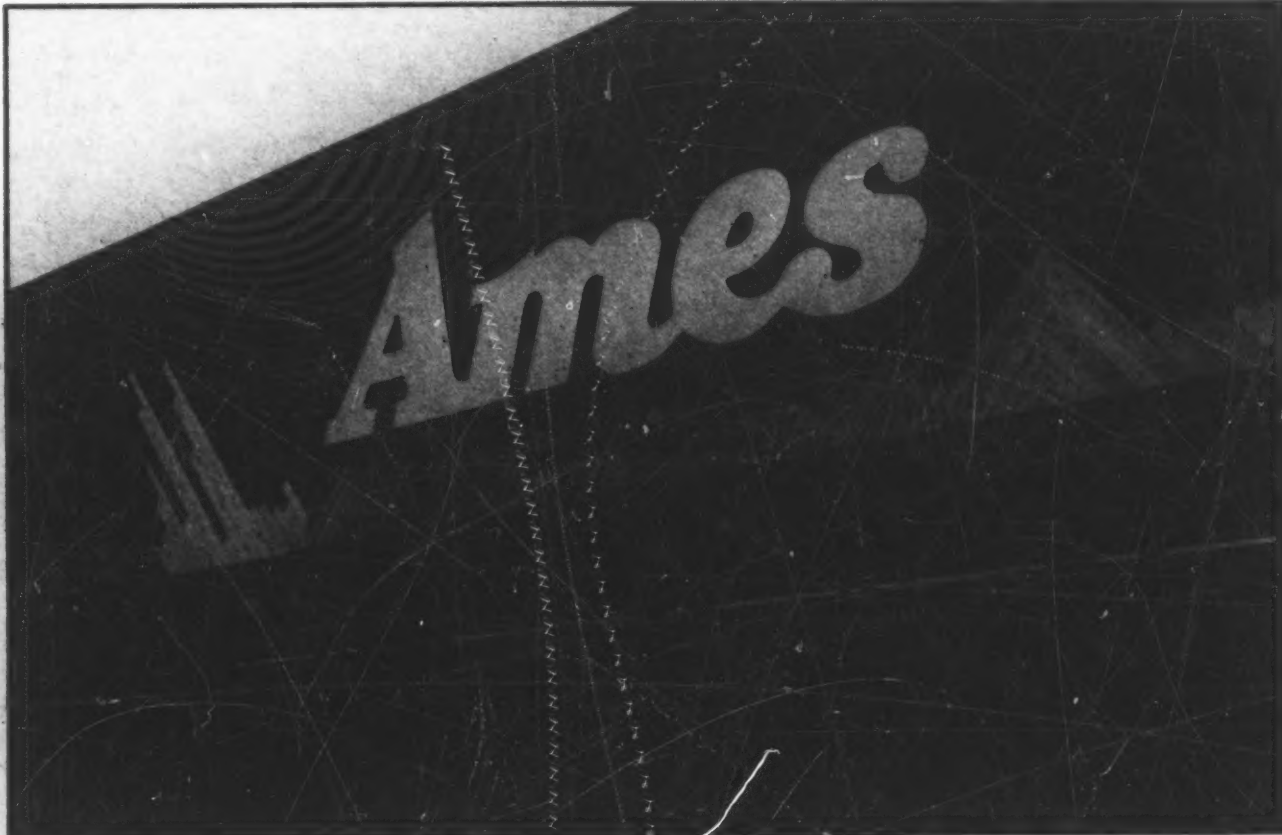
Ames			
	1986	1985	% Change
Sales (In Millions)	\$1,888	\$1,513	25%
Operating Income (In Millions)	543	724	(25)
Stores*	321	306	5

*Includes Ames discount stores only

Source: DSN research



At the meeting, president Peter Hollis listed increased customer service to cut back on checkout lines and sharper merchandising focus as 1987 priorities.



Net profits for first quarter 1987 were up 20 percent to \$6.95 million on a sales increase of a little over 19 percent to \$448 million. (DSN photos)



Herbert Gilman, chairman



Peter Hollis, president

Sam's Poised to Become Leader of Membership Chains

BENTONVILLE, Ark. — After just five years of fast-track growth, Sam's is poised to become the leading membership warehouse chain this year, easily passing the industry's founder and premier company, the Price Club, in number of stores and likely beating it in sales, too.

Sam's leapfrogging the Price Club will be markedly aided by the acquisition last month by its parent Wal-Mart Stores, of the Super Saver Wholesale Warehouse firm, with 17 of the latter's stores due to take on Sam's logo once the transition period deal is completed at the end of July.

Sam's half-decade growth reflects Wal-Mart's determination to broaden its traditional discount store marketing to new retailing businesses, while also staking out the top position in the young, but fast maturing, membership warehouse field.

Since Sam's was launched with just three stores in 1983, it has on the average doubled its sales as well as size (in number of units and footage) in each of the subsequent years so that in 1986 it reached \$1.67 billion in volume from 49 clubs that had more than 5 million square feet of space.

In the previous year, Sam's had \$775 million in sales from 23 stores that contained a total of 2.4 million square feet.

In the process, the membership warehouse chain has played a larger and larger role in Wal-Mart's explosive sales growth. In 1985, Sam's contributed 9.2 percent of its parent's volume, while last year that share grew to 14.1 percent. Sam's sales went up 116.2 percent over the course of the two years, while Wal-Mart's volume was substantially less—a respective 40.9 percent.

Sam's sales, which range between \$50 million and \$75 million a store—and with a growing number of units reaching \$100 million—are two to four times more than a typical Wal-Mart store. It's likely that Sam's will become the sales stallion that will pace its parent's revenue growth.

The membership warehouses also are playing two other, equally important roles in the Wal-Mart marketing saga. Sam's has become Wal-Mart's merchandising vehicle in major metro markets—with the traditional discount stores spotted mainly in small towns and the suburban fringes of large cities—and the striking success of the wholesale club division has resulted in Wal-Mart applying many aspects of this operation to the parent's plans to enter the hypermarket field.

Last year, more than half of Sam's new stores were spotted in large metro markets where they complemented and supported older membership warehouses. This move reflects Sam's real estate strategy of market dominance and saturation that Wal-Mart views as the key to the ongoing profitability of its membership warehouses.

Sam's learning curve contribution to the proposed Hypermart USA hypermarket business includes the wholesale club's low cost distribution, the strong appeal of the combined selling under one roof of food and general merchandising, and shopper acceptance of bulk displays using warehouse-type fixtures.

While Wal-Mart is applying its Sam's experience to fuel the company's growth, it hasn't reined in the membership warehouse's expansion. This year, Sam's was due to open 20 membership warehouses, adding an-

Sam's			
	1986	1985	% Change
Sales (In Millions)	\$1,678	\$775	117%
Operating Income	NA	NA	—
Stores	49	23	113

NA— not available

Source: DSN research

other 2 million square feet of space, prior to picking up the 17 Super Savers, along with the sites of five more that the acquired warehouse club had planned to open in the fall.

Super Savers will be easily melded into the Sam's operation as both chains operate very similar 100,000-square-foot stores. The four Super Savers that are to be shut include units in Amarillo, Tex., already closed; Memphis, Tenn.; Jackson, Miss.; and Greenville, S.C. In five other cities where the two compete, Sam's will use Super Savers to strengthen its market position.

While Sam's has focused on 100,000-square-foot metro market stores, last year it opened scaled back 60,000-square-foot units in the smaller cities of Lawton, Okla., and Bowling Green, Ky., as a test. The mix in these mini-units has been cut back from Sam's typical 3,500 skus to about 2,800 skus through the elimination of lower-priced, consumer-oriented products, so that the merchandising in the test stores centers on a sharper wholesale assortment for business members.

Additional mini-Sam's are likely to be opened as the wholesale club starts to fill in markets within its



Sam Walton,
chairman and ceo

overarching South and Southeast and thereby slow down and possibly prevent other membership warehouses from expanding there.

This year Sam's will enter such new metro markets as Fayetteville, N.C., Baton Rouge, La., Columbia, S.C., and Savannah, Ga., along with smaller communities like Springdale, Ark., and Irondale, Ala. The Super Savers acquisition will see Sam's beef up its presence in metro markets like Oklahoma City, Jacksonville, Fla., and Louisville, Ky., while also putting the chain in such new cities as Pensacola and Tallahassee, Fla., Huntsville and Mobile, Ala., and Charleston, W. Va.

CALDOR

ANNUAL REPORT

May Overhauls Caldor Executive Suite After Aquisition

NORWALK, Conn. — The major development at Caldor last year was the discounter's acquisition by its second new corporate owner in four years when May Department Stores Company acquired the discounter through its purchase of Associated Dry Goods in October.

ADG had acquired Caldor just four years earlier. Since the acquisition, May has overhauled the Caldor executive suite by replacing the chairman and chief executive officer and president with Venture executives and four senior vice presidents, for finance, stores, hard lines and soft lines. In addition, it moved to standardize operations between Caldor in the East with its more profitable Venture discounter in the Midwest.

In just six months, May officials claim they have turned around Caldor, whose operating income plunged 17 percent in the fiscal year ended Jan. 31, 1987, on a sales gain of 5 percent. Same store sales eked out a 1 percent gain.

Operating income of Venture gained 38 percent on a 14 percent sales increase. Yet no merger between Venture and Caldor is in the works, insisted Thomas Hays, May president.

For the quarter ended April 30, 1987, sales rose 12.6 percent to \$300.6 million, from \$266.9 in the same period last year, said May treasurer Jan Kniffen. Same store sales gained 7.4 percent. Caldor sales in May continued the trend: total sales rose 9.8 percent, with same store sales increasing 6.7 percent.

May chairman David Farrell told New York analysts last month that Caldor was one of three former ADG units to get priority treatment.

Within 24 days of acquiring Caldor, May replaced its chairman and ceo with Venture chairman Don Clarke. It shifted Marc Balmuth from executive vp, Venture to president of Caldor. Venture's Michael R. Lynch moved to Caldor as director, stores.

From various department store units, May brought in three more senior vps: John Cook as Caldor's new chief financial officer; Elliott Kerbis as general merchandise manager, hard lines; and James D. Lee, gmm, soft lines.

In the May annual report for fiscal 1987, chairman David Farrell acknowledged that "Caldor's 1986 results were disappointing."

Although sales rose to \$1.4 billion from \$1.3 billion, operating income plunged to \$75 million, from \$90 million in 1985. Income thus fell to the 1984 level when it operated 103 stores. Return on sales slipped to 5.3 percent in 1986 from 6.7 percent the year before.

In comparison, Venture contributed \$80 million in operating income, generating \$1.2 billion in sales from just 65 stores.

Caldor lacked direction, prior to the acquisition, Hays said. Since then, Caldor has sharpened the practices that any good discounter follows, he said. Those include:

- Cleaning stores better;
- Widening aisles, adding 3,500 aisle tables and pallets in its 116 stores;

Caldor			
	1986	1985	% Change
Sales (In Millions)	\$1,411	\$1,338	5%
Operating Income (In Millions)	75.0	90.0	(17)
Stores	114	109	5

Source: DSN research

- Adding 10,000 endcaps;
- Buying 12,000 shopping carts;
- Laying out better planogramming;
- Cutting sku's by 30 percent to 35 percent;
- Reducing the number of vendors;
- Addressing a severe out-of-stock problem brought on by broad, but thin, selections;
- Reducing percentage-off sales on entire lines, and instead focusing on selective sale items;
- Developing a prototype signage program scheduled to hit all stores by November;
- Rearranging fixtures.

In addition, Caldor has slashed \$50 million in old, slow-moving inventories since taking over and plans to move \$50 million more.

Caldor will open three stores in 1987, down from seven in 1986. In March, it opened a new store in Westminster, Md., and plans to open new units next month in Plainsboro, N.J., and a sixth store in Philadelphia. For the five years from 1986 through 1990, Caldor plans to open 27 stores.

Checkout scanning is being in-



Don Clarke,
chairman and ceo

stalled in stores of its sister chain, but scanning will have to wait until next year, Hays said.

"Absolutely no merger" between Venture and Caldor is in the cards, Hays said. "The question keeps coming up, but it's not necessary. 'Both companies have strong customer franchises in their geographic areas. They don't compete directly, and they enhance each other.'"

ANNUAL REPORT

MARSHALLS

New Exec Team Looks to Revitalize Marshalls' Earnings

WAKEFIELD, Mass. — Marshalls is aggressively increasing its mix of better branded apparel and has added key top executives over the last six months in an effort to revitalize its earnings, which slipped during fiscal 1986.

While Marshalls remained the country's leading apparel off-pricer last year with sales of \$1.41 billion (a 6.5 percent increase over 1985), the chain did not meet earnings expectations, posting operating profits of \$100 million in 1986, a dip of 5 percent from 1985 operating profits.

However, Marshalls has added a brand new president, Francis H. Arnone, who started two weeks ago. Arnone, who at one time had been chairman and chief executive officer of The Broadway, is expected to spearhead the 268-unit chain's turnaround strategy.

In February, Marshalls added a key top merchandiser, David Dash, from Lord & Taylor, who helped refocus Marshalls' merchandise mix toward higher-end brands in the women's wear and accessories categories, among others, for which he's responsible. The move toward higher profile and, in most cases, higher priced brands is storewide.

Other key management additions over the past several months include two new senior vps: Rocky Sullivan, store operations (from Chess King, another Melville division), and Jim Mixon, warehousing, distribution and traffic (from Wal-Mart, where he held a similar position).

According to Kenneth Berland, vice chairman of Melville, Marshalls,

Marshalls			
	1986	1985	% Change
Sales (In Millions)			
Operating Income			
Stores			
NA—not available			
Source: DSN research			



Marshalls remained the country's leading apparel off-pricer last year with sales of \$1.41 billion, a 6.5 percent increase over 1985. (DSN photo)

parent, the addition of Dash has also allowed a splitting of top merchandising duties at Marshalls between two senior vice presidents. Lawrence Finn, who in the past handled all categories storewide, now handles only men's and children's. Berland emphasized that these moves have allowed Marshalls to become a better consumer-driven merchandiser since the beginning of the year.

Nevertheless, comparative store sales for first quarter 1987, ended

March 28, were up just 0.1 percent over first quarter 1986.

Second quarter figures should reflect the turnaround, said Berland.

He added that Marshalls "had gotten away [during the last couple of years] from what we traditionally did best"—offering better branded apparel at price points 20 percent to 60 percent lower than most department stores.

As Marshalls continued expanding through the early 1980s and started

being undercut by other, newer apparel off-pricers, the chain began competing more with the new off-pricers and other full-line discounters than with department stores. Marshalls soon became more concerned with lower price points than with being customer driven through carrying the right goods for the department store-type shopper.

However, Berland said the chain is back on track.

Dash seconded Berland's comments, adding that Marshalls' single biggest challenge going forward is to continue "to support the size of our business with the right goods."

Dash said that "the response at store level [to the better branded merchandise] has been astounding." He said that sales during April and May were strong. He added that over the next couple of years he expects sales of better branded goods to be as much as 33 percent of the mix, with moderate branded goods representing the remaining 67 percent.

Neither Dash nor Berland wanted to name specific brands, but Marshalls carries many of the same brands as moderate to higher-end department stores.

Marshalls has already opened seven new units in existing markets since the beginning of the year, and Berland said the company expects to end the year with 286 units. He said Marshalls is also on plan to open an additional 25 stores in 1988.

Marshalls is Melville's largest division, accounting for approximately 28 percent of Melville's sales and operations.

ANNUAL REPORT

MEIJER

Increased Competition Buffets Meijer Superstores' Sales

GRAND RAPIDS, Mich. — During the past 12 months, Meijer Inc. has been hustling.

In that time, the 53-store chain:

- Dedicated itself to an enlarged superstore format;
- Closed its stores in Kentucky and in the city of Cincinnati;
- Jumped into the Columbus, Ohio market with a handful of stores;
- Initiated what could become a full scale attack on the city of Dayton, Ohio;
- Purchased a 200-acre parcel of land in Detroit for building a 500,000-square-foot distribution center scheduled for fall construction.

The superstore retailer's major strength is as a one-stop combination general merchandise, grocery and services retailer. But, while Meijer is definitely on the move, so is competition. Grocery store and mass merchandiser competition seems to be keeping pace with Meijer's store development plans.

Cub Foods, Big Bear, Kroger and other food stores together with discounters K mart, Harts, Gold Circle and Maumee, Ohio-based The Andersons are forcing the chain to lower prices, and this could be one reason why Meijer's profits are estimated to be flat for the year despite modest sales increases.

In a Dun & Bradstreet report, Fred Kistler, Meijer's vice president and treasurer, said sales volume growth during 1986 is due to new store openings and moderate growth at existing stores. Profits, on the other hand, will remain the same due to what was termed "pricing decisions in various marketing areas."

Sales in 1985 were estimated at

Meijer			
	1986	1985	% Change
Sales* (In Millions)	\$1,400	\$1,200	17%
Operating Income	NA	NA	—
Stores	53	54	(2)
*Does not include supermarket items			
NA—not available			
Source: DSN research			



Fred Meijer, president of the 53-unit superstore chain. (DSN photo)

nearly \$3 billion. At the superstores, 55 percent of sales were on general merchandise and 45 percent were from groceries. And a fraction of the sales were generated by the company's specialty retail stores.

Meijer opened three Columbus superstores already this year: one in the northwest part of the city on Saw Mill Road, another on the east side off Brice Road was opened in April, and a third was opened in May in western Columbus. A fourth store north of Columbus on Route 23 in Delaware County is currently under construction.

Three 33-acre sites have been selected in Dayton but the food store competition in that market is also starting to boil.

Cub supermarkets has started construction on three stores, with another two sites under consideration, according to a retail observer in that market. Kroger is counter-attacking by developing a new 55,000-square-foot format instead of its usual 30,000-square-foot to 40,000-square-foot norm. Competing for general merchandise sales are Gold Circle, Hills and K mart. The Andersons will bring its superstore format to the market next year.

The chain wanted to develop its superstore concept in its now vacated eight Cincinnati stores, according to a retail source in that market, but competition from Kroger and IGA food stores prevented Meijer from adding groceries to its primarily general merchandise format. Even if Meijer had decided to add groceries, the 65,000-square-foot Cincinnati stores couldn't accommodate its current 225,000-square-foot format.

Hills Anticipates Fast Growth Rate; Plans 12 to 15 Stores

CANTON, Mass. — Anticipating a faster rate of growth than it has ever experienced, Hills Department Stores is opening 12 stores to 15 stores this year and plans to open 16 more in fiscal 1988.

1986 marked the 29th consecutive year of increasing sales and profits for Hills, with sales up 10.7 percent over 1985. Last year, Hills showed an operating profit of \$94.4 million on \$1.343 billion in sales, up from the \$74.1 million operating profit on \$1.214 billion in sales in 1985.

New Stores in 1986

During 1986, 11 new stores were opened and comparable store sales increased 6 percent. The company attributed the increase to high performance in women's and children's apparel, as well as electronics, toys, and health & beauty aids. Operating income, before an inventory charge of \$41.3 million, was up 27.4 percent to \$94.4 million.

The nonrecurring inventory charge of \$41.3 million and interest expense of \$65.9 million resulted in a net loss of \$14.8 million for the company in 1986.

Inventory Turns

The company achieved 4.4 inventory turns in 1986, which Hills credits to its directship distribution system. The company does not maintain a central distribution center or warehouse, but rather orders goods from suppliers for shipment directly to Hills stores.

In 1986, comparable stores averaged \$159 in sales per square foot compared to \$152 in 1985.

Hills Department stores, once a public chain that was taken private in a management-led leveraged buyout in December 1985, has announced intentions to go public once again in 1987.

The company's founder and current chairman of the board, Herbert H. Goldberger, along with his son, Stephen A. Goldberger, who is now president of the company, were part of the management group that combined with THL Company president Thomas H. Lee, grandson of SCOA's founder, to purchase the company for \$637 million in late 1985.

SCOA's shoe store, shoe importing, licensed shoe department and dry goods operations, which were responsible for 20 percent of the company's sales but only 4 percent of its



'In our case, it is more important to be a leader because we have no exposure in the newspaper . . . we must always have new and exciting merchandise in the store, particularly soft lines, because we want to be a fashion leader.'

—Gene O'Donnell, senior vp, gmm

profits, were sold in the spring and early summer of 1986 to repay acquisition debt.

William Friend, vice president and secretary of Hills, said that the company plans to raise roughly between \$80 million to \$100 million in the offering. He added that the decision to go public at this time was made to "take advantage of good market conditions."

The largest concentration of the chain's stores is in Pennsylvania, totaling 41 stores. The second largest concentration is in Ohio, which has 28 Hills stores. Remaining stores are located in New York, Tennessee, Indiana, West Virginia, Virginia, Kentucky, Illinois, Alabama, Georgia

Hills			
	1986	1985	% Change
Sales (In Millions)	\$1,343	\$1,214	11%
Operating Income (In Millions)	94.4	74.1	27
Stores	136	125	9

Source: DSN research



The largest concentration of Hills stores is in Pennsylvania, totaling 41 stores. The second largest concentration is in Ohio, with 28 Hills stores. (DSN photo)

and Maryland.

Hills will be entering a new market, Grand Rapids, Mich., with five locations by late summer and fall. In addition, Hills expanded in the New York and Ohio markets with locations in Plattsburgh, New York, and Chillicothe and Miamisburg, Ohio. It plans to open two more stores in Ohio, one in New Philadelphia by spring 1988 and one in Lancaster by the fall.

The 139-store chain will also be opening two Michigan stores in Monroe and Adrian by the fall and plans to open four Indianapolis stores and one Massachusetts store between the fall and spring of 1988. The Massachusetts store marks Hills entrance into its 14th state and the site of its home office.

The new store in Adrian will be the new 60,000-square-foot prototype introduced by Hills in 1986. Gene O'Donnell, senior vice president and general merchandise manager, said that the chain experimented with two 60,000-square-foot stores last year to complement smaller towns and capitalize on the same media vehicles.

"This has been a whole new area of growth for us and we are planning more 60,000-square-foot stores in 1987," O'Donnell said. "We wouldn't put a 60,000-square-foot store in a

market where we are not known, but it is very successful when we use it to fill out markets where we are known," he added.

Innovative Retailing

Hills is an innovative retailer that is looked upon as a leader among other chains due to its policies of not running sales nor accepting credit cards. The chain found that when entering new markets a strong institutional advertising approach upfront enables people to understand the store's policies right away before they walk in the door.

"In our case, it is more important to be a leader because we have no exposure in the newspaper," O'Donnell said. "We must always have new and exciting merchandise in the store, particularly soft lines, because we want to be a fashion leader."

The chain is being hit with more specialty store competition, especially from toy stores. Hills stores typically have a 5,000-square-foot toy department that contributes to over 10 percent of the stores' sales. The chain is also facing stronger competition from larger chains. "It is not additional competition, it is better competition and we can't be complacent these days," O'Donnell said.

Hills is basically, first and foremost, a store that really appeals to the female head of the family. Sixty percent of its volume is soft lines. Other areas that appeal to its target customer include toys, seasonable items, housewares, health & beauty aids and greeting cards.



Comparable store sales for Hills increased 6 percent in 1986. The company attributed the increase to high performance in women's and children's apparel as well as electronics, toys, and health & beauty aids. (DSN photo)



Stephen Goldberger, president and ceo

Rose's Meets Challenge of Increasing Market Competition

HENDERSON, N.C. — Rose's Stores is in no situation to sit on its laurels, despite breaking the \$1 billion sales mark during 1985 and generating 19 percent additional sales in 1986; giant Wal-Mart has targeted the Rose's market area for expansion.

The chain, like many others, is also facing economic challenges in the third quarter and fourth quarter of this year due to the higher cost of merchandise.

Wal-Mart operates stores in about 25 percent of Rose's markets at present, or more than 50 shopping localities. By the end of 1987 Rose's and Wal-Mart are likely to be within a few miles of each other in as many as 60 locations, according to industry sources.

Competition Will Increase

John Little, Rose's senior vice president, merchandise, said he anticipates "significant increases in competition between the two companies" in the years ahead.

Working on the premise that the best defense is a strong offense, Rose's will combat the discount giant through lowered operating costs combined with better store signage and merchandise presentation, among other tactics, Little said.

Store maintenance is being improved through better communications. Standards established by Rose's headquarters were being carried out better by store level employees. Little estimated that execution of standards has improved by about 50 percent over last year.

As an example of how communication was key to these improvements, Little said it was discovered that merchandise presentations simply couldn't be set up properly because some of the stores didn't have all the necessary fixturing. Once the problem was communicated from the store level to headquarters, the remedy was a simple matter. Now each store location is equipped with the proper racks and gondolas. The company is pursuing better channels of communication between stores and management.

Looking ahead to the second half of 1987, Rose's will struggle with the same high-cost situation facing all retailers. Protectionist constraints against imports meshed with the declining value of the dollar have resulted in higher merchandise costs.

Price hikes at the retail level are warranted, but the host of other re-



Lucius H. Harvin III,
chairman and ceo



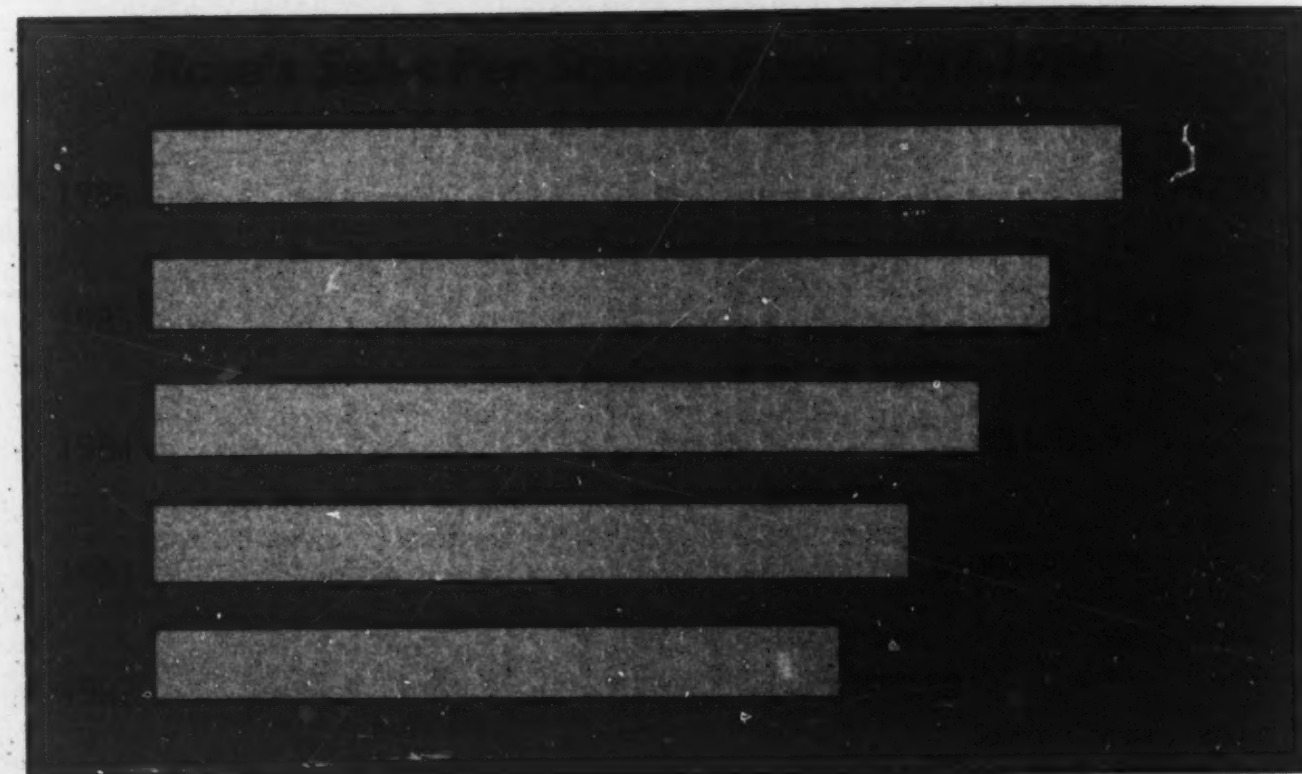
John W. Little,
senior vp, merchandise



Jack E. Bush,
president and coo

Rose's			
	1986	1985	% Change
Sales (in Millions)			
Net Earnings (in Millions)			
Stores			

Source: DSN research



tailers sharing the chain's market areas might prevent Rose's from passing on the entire burden to consumers, resulting in a drain on the bottom line.

Little said there is no doubt that the chain will need to pass on some of its higher merchandise expense, but noted that the question is: "How much will the competition let you?"

Competition isn't the only factor influencing retail pricing during the second half of the year. Results for the third and fourth quarters might hinge on how much the Rose's shopper can afford to pay.

The economic environment of the rural Southern consumer has been changing in recent years. For example, many of the small towns that

Rose's will ward off the increasing competition in its market area through lowered operating costs combined with better store signage and maintenance as well as improved merchandise presentation.

Rose's serves in North Carolina and South Carolina were dependent on sewing needle manufacturing, an industry that over the past several years has all but vacated those states and is destined for Europe.

Limited Shopping Budgets

Even if Wal-Mart, K mart, Family Dollar, Sky City and other chains that share Rose's market each passed on the merchandise cost to consumers, there is a reason to question whether these shoppers' budgets would let them pay the price.

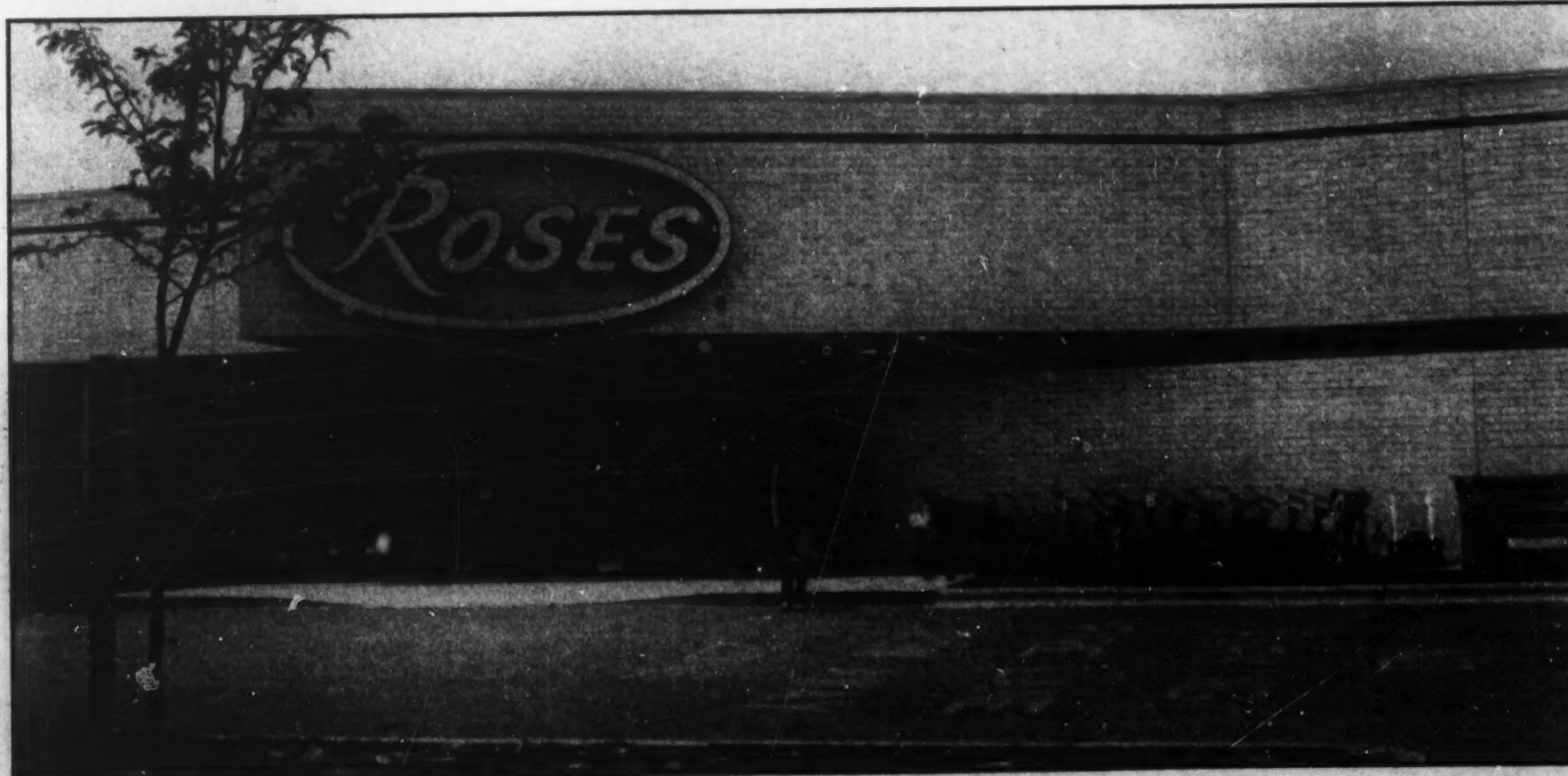
Expansion plans at Rose's will remain steady with 25 store openings and eight closings planned during 1987. The chain opened 25 stores last year and closed seven. At present the chain consists of 222 stores, situated from Delaware to Florida and as far west as the Mississippi Valley, with about 75 percent of its stores in the Carolinas and Virginia.

Rose's sales climbed 19 percent to \$1.2 billion for the fiscal year ended January 1987, and net earnings rose 18 percent to \$24 million. Same store sales rose 8.8 percent for the recently completed fiscal year, up from 3.8 percent between 1985 and 1986.

The 1986 Tax Reform Act eliminated some of the company's tax credits and resulted in a 44.8 percent tax rate, or a rate that was 4.5 percent higher than the previous year. Pre-tax earnings were up 28 percent.

Operating expenses as a percentage of net sales edged downward to 20.0 percent from 20.4 percent, while gross profits as a percentage of net sales declined to 22.7 percent from 22.9 percent. The decline resulted from the company's LIFO provision, according to the annual report to stockholders.

Rose's generated 41 percent more working capital over last year, providing it with a \$174 million reserve. Rose's expects it will need \$53,000 for anticipated new store openings, existing store remodelings and other corporate needs during fiscal 1987.



Rose's plans for expansion remain steady with 25 stores opening and eight closing during 1987. Last year the 222-unit Henderson, N.C.-based chain opened 25 stores and closed seven. (DSN photo)

Pay Less Plans to Double by '91; Dominate West Coast

WILSONVILLE, Ore. — Pay Less NW took advantage of parent K mart's financial clout to expand its presence on the West Coast during the past year, as it aimed at becoming the No. 1 super drug chain within its marketplace.

Just recently, at K mart's annual shareholder meeting, chairman Bernard Fauber said the discount giant wants its Pay Less subsidiary to double in size by 1991, bringing the drug chain to nearly 500 stores.

In 1986, Pay Less opened 39 stores and closed four stores, bringing its year-end total to 218. Plans for 1987 call for the opening of 28 stores, and currently the chain has 221 units, including the 14-store Wonder World variety chain. Looking to the future, the company said it plans to open 40 new stores to 50 new stores a year.

Growth for the company in recent months has been centered on Pay Less' longstanding niche in suburban and rural communities. While the chain acknowledged it is poised to meet K mart's goals, it said the expansion plans can be managed without leaving its marketing strategy. In order to avoid the high cost of advertising, Pay Less typically stays out of major metropolitan markets.

"We feel we have enough potential for growth in the areas where we operate now," said Timothy McAlear, executive vice president, Pay Less.

After a six-year absence, the Pay Less name returned to the competitive Southern California market in 1986. In Oceanside, Calif., the chain opened two sites during the past year, and it plans on opening a third this fall, as the chain takes advantage of the area's growth potential. Other stores located in the region are in Barstow, San Dimas, Palmdale and Lancaster.

While the California market will continue to be an area of emphasis for the chain, McAlear said Pay Less will also be looking to do some expansion in Washington and Oregon.

Since many of the new and existing Pay Less stores vary so greatly in size—from 25,000 square feet to



Ron Schiff, president

80,000 square feet—the merchandise selection varies between stores. However, Pay Less said it does try to keep a standard mix of basic products. A flexible department is apparel. This is an area the chain started last year, drawing on some of K mart's strengths.

Although the retailer can consult with K mart's apparel buyers, McAlear said the Pay Less buyers work primarily on their own. According to McAlear, the apparel section is doing "very well, we are pleased with the results. Pay Less is constantly looking at different merchandise concepts . . . and the apparel is probably the biggest."

Pay Less' Wonder World division expanded primarily into the Sun Belt market during the past year, closing its original site in Bozeman, Mont. The chain opened its first pharmacy this spring, with somewhat sluggish results. However, the company remains undaunted while it prepares to open additional pharmacies.

According to Noel Flynn, Pay Less' vice president of pharmacy, Wonder World's pharmacy locations are being hand selected, based on consumer questionnaires, the size of the towns, the number of physicians and the competition.

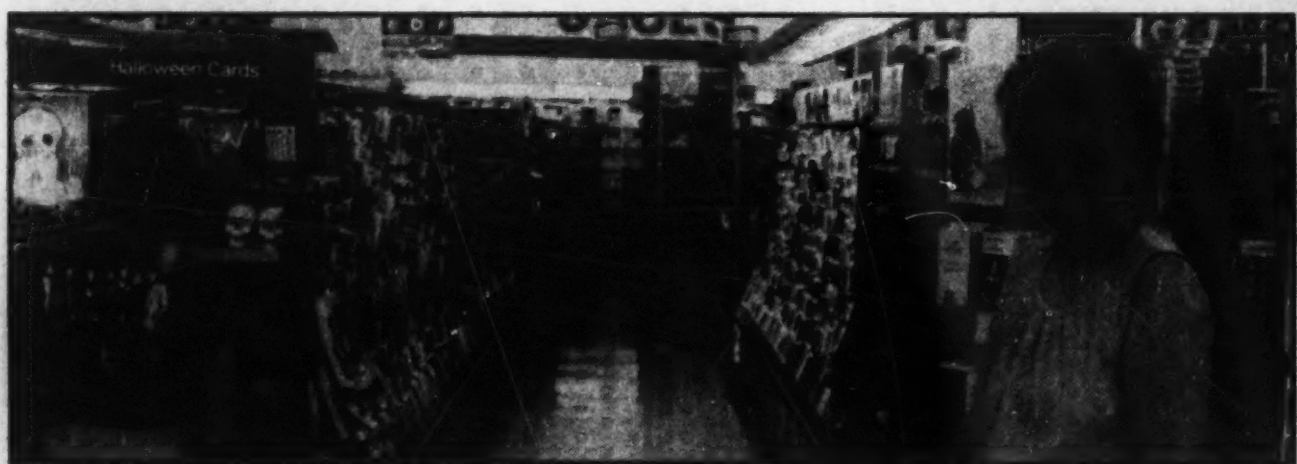
Pay Less			
	1986	1985	% Change
Sales (In Millions)	\$1,123	\$1,003	12%
Operating Income	NA	NA	—
Stores	218	183	19

NA—not available

Source: DSN research



Pay Less tries to keep a standard mix of basic products.



Many new and existing Pay Less stores vary greatly in size—from 25,000 square feet to 80,000 square feet.



In 1986, Pay Less opened 39 stores and closed four stores, bringing its year-end total to 218. Plans for 1987 call for the opening of 28 stores. (DSN photos)

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Venture Improves Productivity as Competition Heats Up

O'FALLON, Mo. — Besides facing stiff competition in its Midwest market from five major discounters, the major problem Venture had to deal with over the past year was losing three top executives to Caldor.

After the May Department Stores Company took over Caldor—which operates on the East Coast—when it acquired Associated Dry Goods last October, it shifted Don Clarke, Venture chairman, to Caldor chief executive officer. Executive vice president, hard lines, Marc Balmuth, was shifted to Caldor president, and Michael Lynch, senior vice president, stores, was brought into the same position at Caldor. They were shifted to Caldor to show the chain "the Venture way," said Venture spokesperson, Tony Wasserman.

May is standardizing operating procedures between Venture and Caldor, but each chain is operating independently.

"It stands to reason, it's got to hurt when you lose that much experience," said Wasserman. Other senior level managers had to assume the burden of additional responsibilities. However, Venture now has largely recovered from the loss, he said.

Replacing Clarke as chairman was Philip Otto, who previously was with Venture before being shifted to Meier & Frank, a May Department Store subsidiary in Portland, Ore.

May is standardizing operating procedures between Venture and Caldor, but each discount chain is operating independently. They share no services such as purchasing.

The official May position is that no merger of the chains is in the offing, despite potential advantages that consolidation might bring, such as increased purchasing power and expanded markets.

Venture faces major competition from chains such as Target, upon which Venture was patterned, Wal-Mart, K mart and Zayre.

Target's market ranges from the West Coast to the Midwest, while Venture is confined to seven Midwest states, with stores clustered around Chicago and St. Louis. All four new stores opened last year are centered around those two cities. A merger with Caldor would extend Venture's market to the East Coast.

In a move to meet competition in smaller cities, Venture opened last

month in Oklahoma City an experimental prototype store of 65,000 square feet, down from the normal 80,000 square feet. The smaller store will employ the same number of people, about 300, and carry the same amount of merchandise in a high profile setting.

By stacking merchandise higher, Venture hopes to boost its sales per square foot figure, which increased to \$158 last year, from \$148 in 1985 and \$131 in 1983. Despite the improvement, Venture lags behind Target, which has sales of \$175 per square foot, and Wal-Mart, with sales of \$165, although it beats K mart's \$126 per square foot figure.

The Oklahoma opening, the first in several years, boosts Venture's store count to four stores in that comparatively small market.

Another of the four new Venture stores planned for 1987 opened in March in Joplin, Mo., a new market for Venture. Sites of the other two stores have not been announced but are expected to open in time to catch the Christmas season.

Operating 65 stores at the beginning of the year, Venture expects to be running 90 stores by 1990.

Sales for the fiscal year ended Jan. 31, 1987 came to \$1.1 billion, a 10.0 percent increase from \$1 billion the previous year. Same store sales rose 8.8 percent.

Operating income jumped to \$80 million, a \$22 million or 38.3 percent gain, from \$58 million in 1985.

On the technological front, Ven-

Venture			
	1986	1985	% Change
Sales (In Millions)	\$1,100	\$1,004	10%
Operating Income (In Millions)	80.0	58.0	38
Stores	65	62	5

Source: DSN research



Julian Seeherman,
president and CEO



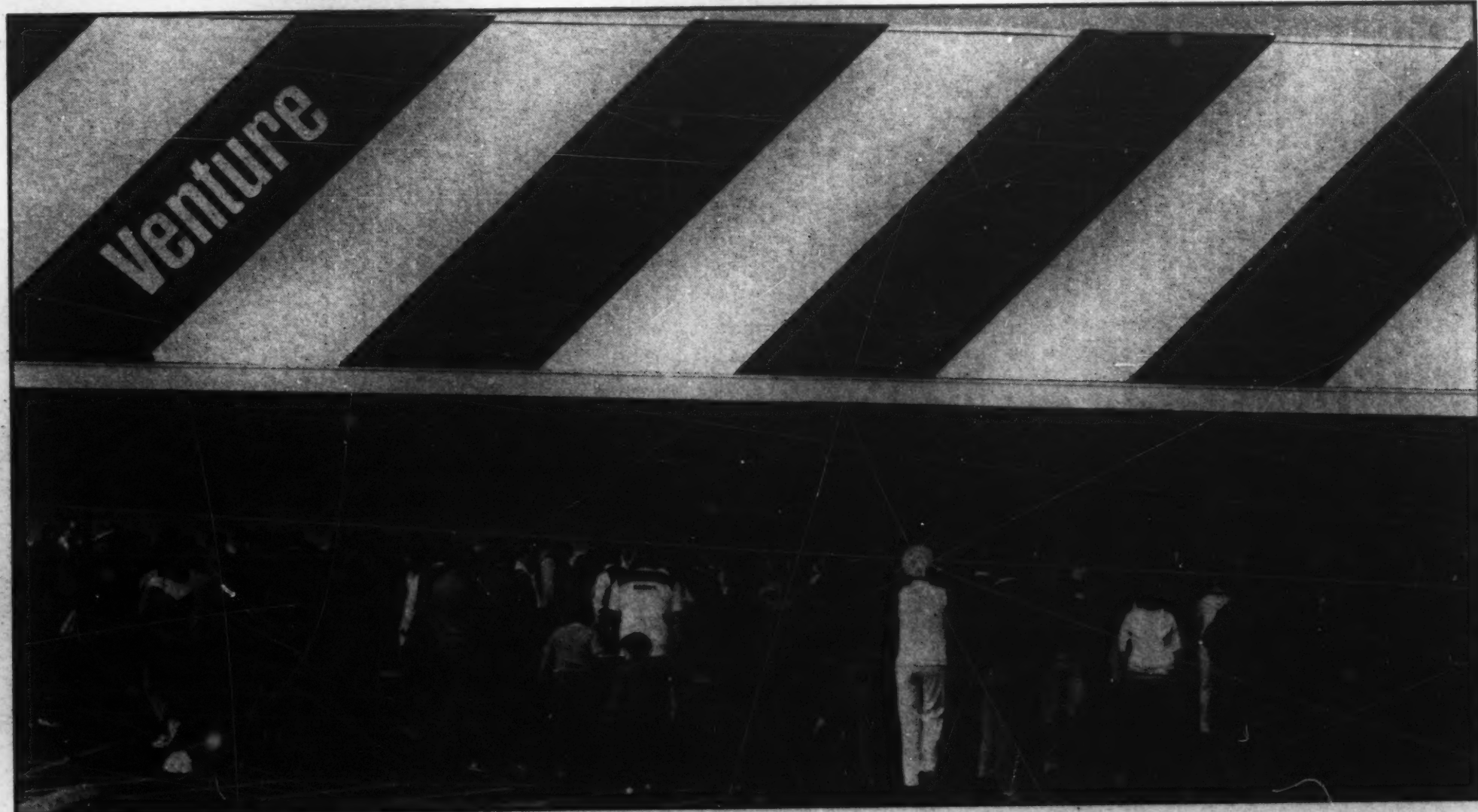
Philip Otto,
chairman

ture is installing checkout scanning in four or five stores this month and expects to be scanning customers' purchases in all of its stores by the end of the year.

Venture also expects to improve checkout speed by installing Tele-

check check approval systems. Check scanning is just starting to come on line now.

Besides speeding customers through checkout counters, the check approval system is expected to reduce bad check losses for the chain.



Venture was operating 65 stores at the beginning of the year and expects to be running 90 stores by 1990. (DSN photos)

LIQUID ASSETS

For the discerning consumer, the only way to ensure the quality of your liquid assets is to invest in the National Housewares Liquid Assets Program. This program is designed to provide you with the best quality liquid assets at the lowest possible price. The program is open to all who wish to invest in liquid assets.

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A TRUST COMPANY

Strong Sales Prompt Zayre to Spin-Off T.J. Maxx Division

NATICK, Mass. — T.J. Maxx, Zayre Corp.'s off-price apparel division, celebrated its 10th anniversary by joining the \$1 billion club in 1986, posting sales estimated at \$1.08 billion for the fiscal year ended Jan. 31, 1987.

T.J. Maxx's continued success through the first half of this year has prompted Zayre to spin-off the division, along with Hit or Miss and its Chadwick's of Boston off-price apparel catalog, in an effort to raise capital for expansion.

The new company, to be called TJX Cos., is expected to have an initial offering price of \$24 per share on the New York Stock Exchange. Zayre expects to generate about \$192 million in capital from the sale of 8.5 million shares. Zayre will retain 84 percent ownership.

Maurice Segall, chairman of Zayre Corp., will be chairman of the new TJX Cos. Bernard Cammarata, currently chairman of T.J. Maxx and group executive of the specialty store division at Zayre, will be president and chief executive officer of the new company. Richard Lesser, president of T.J. Maxx, will be a senior vice president.

T.J. Maxx, founded by Zayre in 1977, has posted improved sales and earnings figures in each of its last five fiscal years and is currently the second largest off-price apparel chain in the country.

Sales were up 38 percent last year over 1985. The chain also opened 35 new units last year, bringing to 226 the number of stores in operation by fiscal year-end. The chain has already opened five new units over the last five months and plans to open about 30 stores over the next six months, including its first expansion into the California market.

California Expansion

As to the difficulty suggested by industry analysts and others of expanding into the competitive California market, Cammarata said, "When we decided to expand into the Midwest, everyone said it was going to be very difficult. We've enjoyed great success there. I've learned over the years not to listen to other people."

Cammarata said that for now the California units will be serviced by the chain's distribution center in Evansville, Ind., but that "eventually we will develop distribution on the West Coast."

Cammarata said the T.J. Maxx concept is nothing special, but, he added, "It's the execution of the concept that's key. The way you buy, process through the warehouse and manage the store—that's the difference. It's an art, not a science."

The chain, along with Hit or Miss and Chadwick's, has stimulated huge increases in net income for its parent. (Hit or Miss, with an estimated \$345 million in sales in fiscal 1987, has started to turn itself around after a significant decrease in profitability in fiscal 1984 and 1985.)

TJX's net income represented 59 percent of Zayre Corp. profits last year. The previous year, those companies delivered 47 percent of total income.

For the first quarter ended May 2, Zayre's earnings were \$21 million on sales of \$1.3 billion. The three divisions that will comprise TJX Cos. had net earnings of \$13.3 million on sales of \$364.9 million, representing 63 percent of total corporation earnings while contributing a mere 28 per-

cent of all Zayre sales.

T.J. Maxx is expanding the number of women's shoe departments and is also testing fine jewelry departments.

Like its competitor Marshalls, T.J. Maxx specializes in moderate to better branded apparel at low prices.

Cammarata said he considers "anybody who's selling off-price apparel" as a competitor," but said T.J. Maxx "has always been after the department store shopper and we've never gotten away from that."

T. J. Maxx

	1986	1985	% Change
Sales (In Millions)	\$1,080	\$782	38%
Net Earnings* (In Millions)	52.2	44.2	18
Stores	226	191	18

*Includes Hit or Miss and Chadwick's of Boston.

Source: DSN research

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Fred Meyer Goes Public in 1986; Expands in Competitive Pacific NW

PORTLAND, Ore. — In 1986 Fred Meyer once again became a public company after five years as a privately held firm. The Northwest retailer collected some \$63 million in proceeds from the sale of its stock, helping to push the company forward into a state of aggressive expansion as it looks to be a formidable competitor in the Pacific Northwest.

The chain had been private since 1981, when a Fred Meyer management group along with Kohlberg Kravis Roberts & Co. took the company private through a leveraged buyout. Fred Meyer had tried going public in 1983 without success, since it offered only the retail business without its real estate interest, which was being held as a separate entity at the time.

Last year's offering, however, included both the retail and real estate interests. The \$63 million received from the sale of stock helped pay off the debt associated with the 1981 leveraged buyout, while also decreasing the debt from the 1984 acquisition of the 30-unit Grand Central discount department store chain based in Salt Lake City.

The chain also picked up additional savings through the renegotiation of its leases, bringing them to fixed levels and, in some instances, enabling the company to exercise the option of buying the land at a future date. The company estimates it will save \$2 million to \$5 million a year in rent increases.

Grand Central Stores

Fred Meyer now owns just 21 of the Grand Central stores, and during the last two years the Portland chain has worked at merging the two operations into one. The Grand Central stores, located in both Utah and Idaho, now bear the name Fred Meyer, and 15 of the stores have been remodeled and brought in line with Fred Meyer's product mix.

The company operates 11 departments, which are all run individually within each store and without the supervision of a store manager. The departments offer what the company terms a "one-stop shopping" selection.

The transition of the Grand Central stores into the Fred Meyer formula has helped turn the stores to profitability. In 1985, its operations accounted for a \$5 million loss, but in 1986 that figure was turned into a reported income gain of \$1.7 million.

In fiscal 1986, the entire company showed a net income of \$22.5 million on sales of \$1.69 billion, compared to a net income of \$19.4 million on sales of \$1.58 billion in fiscal 1985. In the first quarter of 1987, Fred Meyer's sales rose 9 percent to \$527 million, as net income rose from \$2.76 million to \$4.97 million.

With the acquisition of the Grand Central stores and the opening of one store in 1986,

Fred Meyer now has 93 stores in Oregon, Washington, Utah, Idaho, Alaska and Montana.

Although the chain is now a dominant force in many areas, Fred Meyer still has room to grow in new and existing markets. This year, the chain will open two new stores, in Klamath Falls, Ore., and Marysville, Wash. A replacement store for the Gateway site in Portland will open in 1987.

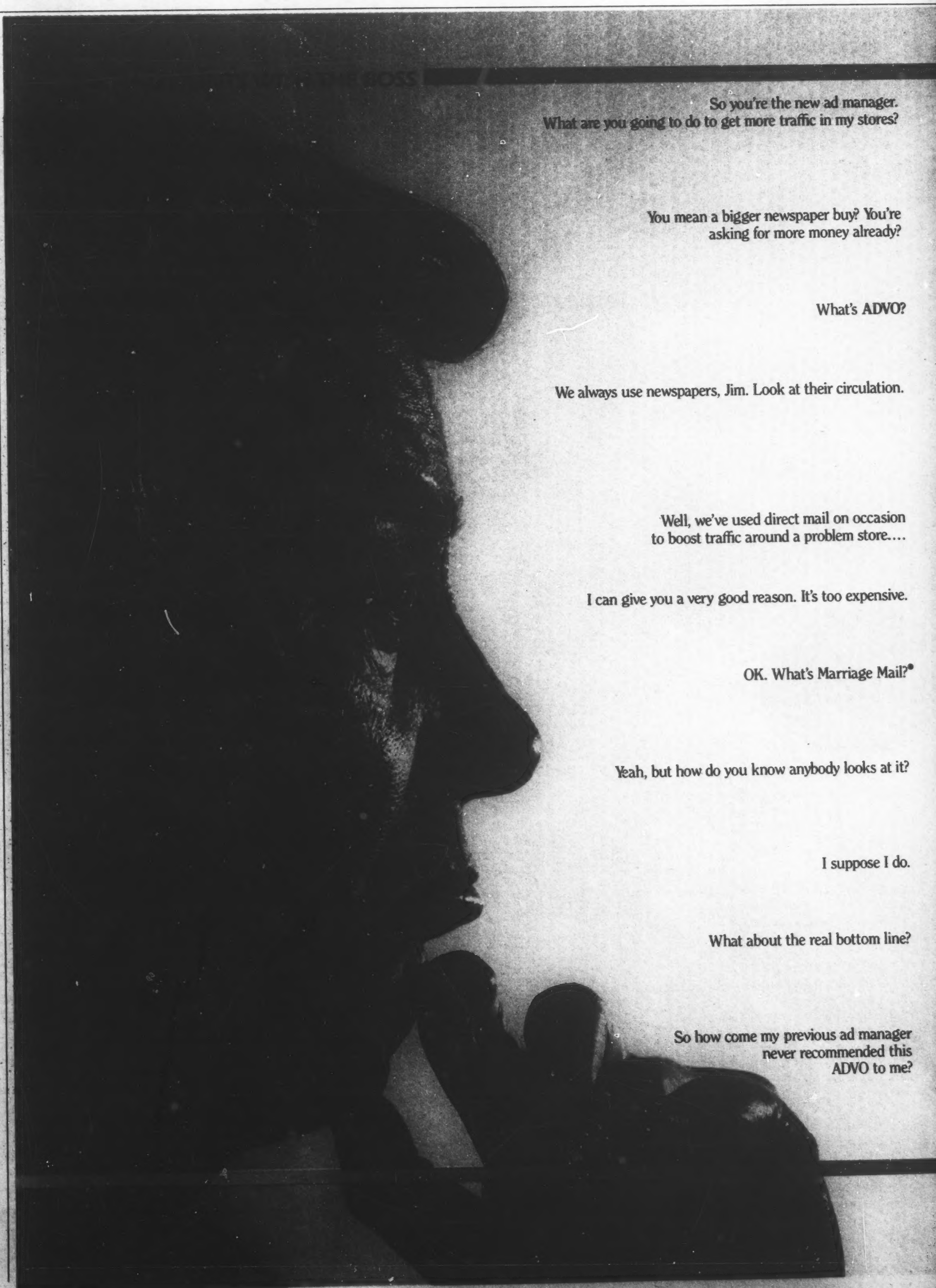
Fred Meyer's reduced debt will help the company move forward by opening about four new stores a year, while remodeling four sites to five sites a year. Looking ahead, the company said it is poised to "compete aggressively" when Target invades the Pacific Northwest with its first wave of stores set to open in mid-1988. Area retail analysts have said Fred Meyer is look-

Fred Meyer			
	1986	1985	% Change
Sales (In Millions)	\$1,074	\$1,004	7%
Net Earnings (In Millions)	22.5	19.4	15
Stores	93	93	0

Source: DSN research

ing not only to reaffirm its hold in some areas, but also to gain a wider market share in new towns before Target comes into the region.

Fred Meyer has already upgraded its advertising to entirely full-color print circulars, instead of the previous black and white color mix.



So you're the new ad manager.
What are you going to do to get more traffic in my stores?

You mean a bigger newspaper buy? You're asking for more money already?

What's ADVO?

We always use newspapers, Jim. Look at their circulation.

Well, we've used direct mail on occasion to boost traffic around a problem store....

I can give you a very good reason. It's too expensive.

OK. What's Marriage Mail?*

Yeah, but how do you know anybody looks at it?

I suppose I do.

What about the real bottom line?

So how come my previous ad manager never recommended this ADVO to me?

ANNUAL REPORT

CIRCUIT CITY

Circuit City Hits \$1B Sales Mark; Sets Sights on \$2B by '90

Circuit City			
	1986	1985	% Change
Sales (In Millions)	\$1,011	\$705	43%
Net Earnings (In Millions)	35.3	22.0	60
Stores	87	70	24

Source: DSN research

RICHMOND, Va. — Becoming the first consumer electronics chain to hit the \$1 billion sales mark was certainly a milestone for Circuit City last year. And, the CE specialty chain is not resting on its laurels. The 88-store chain now has set its sights on exceeding \$2 billion in sales by fiscal 1990.

The chain, which eliminated its less profitable operations (the Lafayette stores in New York and the licensed departments in the Los Angeles

Zodys discount stores in February 1986), has been reaping benefits from the two profitable markets of Los Angeles and Atlanta and is concentrating on successful operations.

Circuit City sales increased 43 percent to \$1.01 billion for its fiscal year ended Feb. 28, climbing from \$705 million the previous fiscal year. Net earnings increased 60 percent to \$35.3 million from \$22 million the previous year. And sales per square foot increased to \$1,489, up from \$1,384 for the

previous fiscal year.

During 1986, the company completed a three-year program of organizational restructuring. While the company decentralized certain merchandising, advertising and store operations functions to bring them closer to the markets each serves, Circuit City strengthened its headquarters management team, which had changed hands during the year from the founding family to a new, professional management. Alan Wurtzel, who is the current chairman of the company, stepped down as chief executive officer in June 1986 and is not active in the day-to-day operation of the company. The founder, Sam Wurtzel, has been inactive in the company's operations since the late '60s.

Superstores Opened

By year-end, the company opened 22 superstores and four smaller units. Comparable store sales gains were 18 percent. Due to the closing of the smaller, less profitable operations, its gross margins rose slightly in 1986 despite intense competitive pressures in continuing operations.

The company believes it can obtain its next billion dollars in sales through overall industry growth, the strengthening of local market shares and entry into new geographic markets.

Industry growth, however, has been flat and is expected to remain flat. Research conducted by the Electronics Industries Association, the consumer electronics industry trade group, projects CE volume, which will pass \$30 billion at the factory level this year, to grow to only around \$31 billion by the end of 1988.

In 1987, the chain plans to place stores in the new markets of Baltimore and Memphis, and six to 10 superstores in the San Francisco Bay market between October and November. It also plans major expansion in Florida and in other areas contiguous to its current operating regions.

The chain now operates 54 Circuit City superstores and 34 Circuit City stores in 12 states from Maryland to Florida and in California.

Expansion plans call for the opening of 25 new superstores in the next two years, with more importance being placed on the 25,000-square-foot to 35,000-square-foot superstores.

Larry Wilson, assistant treasurer, projects total square footage in fiscal 1988 to increase by between 40 percent and 45 percent.

For the first quarter ended May 31, Circuit City's sales increased 45 percent to \$246.4 million from \$169.7 million over the first quarter last year. Net earnings increased 83 percent to \$7 million from \$3.8 million. And comparable store sales for the first quarter increased 18 percent.

The company's operating philosophy is embodied in its five guiding principles, known as its "Five S" policy: savings, selection, service, speed and satisfaction.

Well, sir, I think we have to do a better job of getting our message into the right people's hands.

No, sir, not more money. More accuracy. I've had a lot of success using ADVO.

Direct mail. ADVO is the biggest direct mail advertising service in the country.

Circulation isn't penetration, sir. I found most newspapers missed almost 50% of the households that really counted—the households around our stores. With ADVO we can get 98% penetration.

So why not do it around all the stores?

I thought the same thing. Then I found out about ADVO Marriage Mail.®

Shared mail. You split the postal cost with other advertisers. It costs about 1/3 what traditional mail costs.

Because the one thing practically everybody does everyday is look through their mail. Don't you?

That's the bottom line, sir. Guaranteed viewership. What you get is what you see.

The real bottom line is you're spending to reach only the people you want—not somebody out in Oshkosh. Unless, of course, we have a store in Oshkosh.

I don't know. Maybe that's why he's your previous ad manager.

GOLD CIRCLE

ANNUAL REPORT

Gold Circle Tops Sales Goals but Falls from Billion Dollar Club

WORTHINGTON, Ohio — Gold Circle Stores exceeded its sales and earnings goals for 1986, according to parent Federated Department Stores and chain executives, even though the chain fell out of

DSN's billion dollar club. Operating income, total assets and comparable store sales also declined during 1986.

However, aside from a rash of one-time costs that hurt the bottom line, operating profits

for the year were above plan for the discount chain, which operates as a division of Federated Department Stores, chairman Peter Hayes said.

Gold Circle president Robert Glass said, "On a day in, day out basis, operating profit was better in 1986 than in 1985," estimating it was about 10 percent higher than the previous year.

Residual costs associated with the 1985 merger with Richway Stores, the chain-wide remodeling program and higher than anticipated LIFO costs each brought down the bottom line, Glass said.

The remodeling program has been worked into 22 locations to date, eight of which were former Richway stores

in North and South Carolina.

Depending upon the location, Hayes said remodeling expenses can range from \$500,000 to \$700,000, not including the estimated 8 percent to 13 percent loss of business during the 90-day remodeling period.

The LIFO charges affected all of the corporation's divisions, according to a Federated spokesperson, totaling \$4.4 million companywide.

Sales declined due to three factors, Hayes said, including the problem of bringing Richway up to the Gold Circle sales level.

"There has been a learning curve for buyers. Gold Circle had been a chain that extended from Buffalo to Cincinnati

and now it reaches South to Florida. We learned a lot last year, and no doubt we'll learn a lot this year," he added. Gold Circle also had a 15-month lead on the Richway stores in terms of a renewed soft lines emphasis.

The closing of the automotive tire and battery center and the live plants department represented a \$15 million sales loss.

Competition, particularly in the Atlanta market where nearly half of the 31 Richway stores are located, also pulled down sales, Hayes said.

Among the retailers that recently entered the Atlanta market were: Upton's family apparel stores, Dayton-Hudson's Brandens housewares/home textile chain, Mervyn's apparel stores, consumer electronics specialty chain Circuit City and hard lines specialist Lechmere.

Store Level Changes

Aside from the internal changes within headquarters to absorb the Richway chain, store level conditions were reworked during 1986. While the majority of the stores have not yet been remodeled, some elements of the new prototype have been installed chain-wide. "Those aspects of merchandise presentation that were initially executed in the prototype stores were also brought into others including some of the signage, merchandise and presentation," Al Thompson, vice president, marketing said.

In both soft lines and hard lines, the chain attempted to create a new department personality by integrating specific color pallets within each department. And in apparel, the addition of a women's petites department and the development of narrowed, more focused menswear lines paid off.

In hard lines, the unique merchandise stirred up some controversy among vendors and competing retailers as buyers negotiated programs to test market new products and colors in Gold Circle stores. These product releases let the chain get a jump of several weeks on competition for brand merchandise.

"Dare to Compare," a special at or below cost pricing strategy for promoting commodity items, was brought into 22 Gold Circle stores in 1986. While there was some question at first about the success of this strategy—it appeared stores were being cherry-picked for these specially signed items—Thompson said the latest figures generated by product tracking systems indicate that there was a positive effect on overall margins.

Sales for the chain were \$969 million for 1986 compared with \$1.1 billion the previous year. Operating income dropped to \$31.8 million from \$39 million in 1985. Total assets slipped to \$379 million in 1986 from \$392 million. Comparable store sales dropped 2.8 percent during 1986. During 1985 comparable store sales had risen 0.8 percent.

Gold Circle			
	1986	1985	% Change
Sales (In Millions)	\$969	\$1,058	(8%)
Operating Income (In Millions)	31.8	39.0	(18)
Stores	76	76	0

Source: DSN research

M-M-MAXIMIZE Y-Y-YOUR S-S-SALES!



America's favorite talking head is now available on a complete line of Exclusive Max Headroom Fashion Accessories.

C-c-catch the excitement... you know a great idea when you see it!

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CRITERION WATCH CO., INC.
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ORIGINALITIES, INC.
Max Headroom Costume Jewelry, Key Rings and Hair Accessories

CRITERION MARKETING GROUP

Annual Report

Apparel

Department Delineation Spurs Ladies' Wear Sales Growth

Nationwide DSN Report

Sales volume for ladies' wear will increase approximately 3.4 percent to \$21.1 billion this year, according to DSN research.

Full-line discounters will garner \$15.8 billion in sales in 1987, a 3.2 percent rise over last year. Apparel off-pricers will register a 4.1 percent gain to a volume of \$5.1 billion. And catalogers will suffer a decrease this year to \$200 million, a 33 percent plunge as a result of a general de-emphasis at the catalogers on this type of business.

While average department size will not change this year, sales per store will increase by \$98 to \$1,948, with sales per square foot climbing \$10 to \$195. Turns will dip to 4.5 from 5.0, while initial markups will be down 1.5 percent to 47.4 percent. Gross margins will increase by 1.1 percent to 31.3 percent.

Spurring ladies' wear growth is a continuing delineation of misses, junior, petite and large-sized customer departments.

Special-sizes departments continue to be honed at many discounters. While expanding large-size offerings is seen as creating plus business, the petite customer is suspected of crossing over from juniors or missy.

K mart and Gold Circle are going after petite women, having added large assortments for women who are 5 feet 4 inches and shorter. Ross has added a new special-sizes section in most of its stores.

Bradlees, Target and Hills have been doing well with petites, and Prange Way, Zayre, Dollar General and Family Dollar are strong in large sizes but are passing on petites.

K mart has been aggressive in its new and larger stores, separating dresses and sportswear into one large-size department. Its newest program, a line by Jordache, was developed for K mart to appeal to a more youth-oriented customer.

In terms of unit consumption growth, activewear paced all ladies' wear categories over the last 12 months ended March 31, 1987, according to industry analysts.

Overall ladies' wear unit consumption was up 5.5 percent.

K mart, for one, is moving in on the fast growth ladies' activewear and sportswear.

The giant chain is debuting two new private labels, The Body Company and Weathered Blues. The chain will be creating a new exercise wear department around the new line as well as other branded exercise wear. The department will be rolled out at three-fourths of all K mart stores this month. Initial shipments will be 125,000 dozen units, of which 40 percent will be The Body Company labeled merchandise.

Weathered Blues is K mart's answer to the hot distressed and frosted denim looks. The Weathered Blues roll-out will begin in early August, supported by a national television and print campaign.

In DSN's Top Brands Report of 1986, Lee was the most highly rated brand in ladies' wear overall—57 percent of managers at upscale discount stores selected Lee as a top brand, while only 23 percent of conventional store managers agreed. Lee did well at Target stores, but was poorly rated at Wal-Mart, for example.

Gitano showed strength among up-

scale chains, and Wrangler did well across the board.

Intimate apparel is also being featured more aggressively at many discounters, and sizes offered are being expanded as well. Teddies are strong fashion item sellers, as are 42-inch dorm shirts in fleece or printed fabrics, panties with high thigh cuts and the new continental V-front.

At the off-pricers, several of the fastest growing chains carry just ladies' wear. For example, Clothes-Time and The Dress Barn, two of the fastest growing off-pricers, cater to juniors in particular.

While The Limited's Sizes Unlimited division, which caters to large-sized women, showed a sales decline last year, the chain plans to add 100 units during the course of this year, bringing to 337 the number of stores in operation by Jan. 1.

Ladies' Wear
\$21.1 Billion

Full-Line Discounters ... \$15.8B

Catalogers ... \$0.2B

Specialty Discounters ... \$5.1B

Full-Line Discount
Store Productivity

Sales ... \$15.8B

Sales Per Store ... \$1,948

Dept. Size ... 10,000 Sq. Ft.

Sales/Sq. Ft. ... \$195.00

Turns ... 4.5

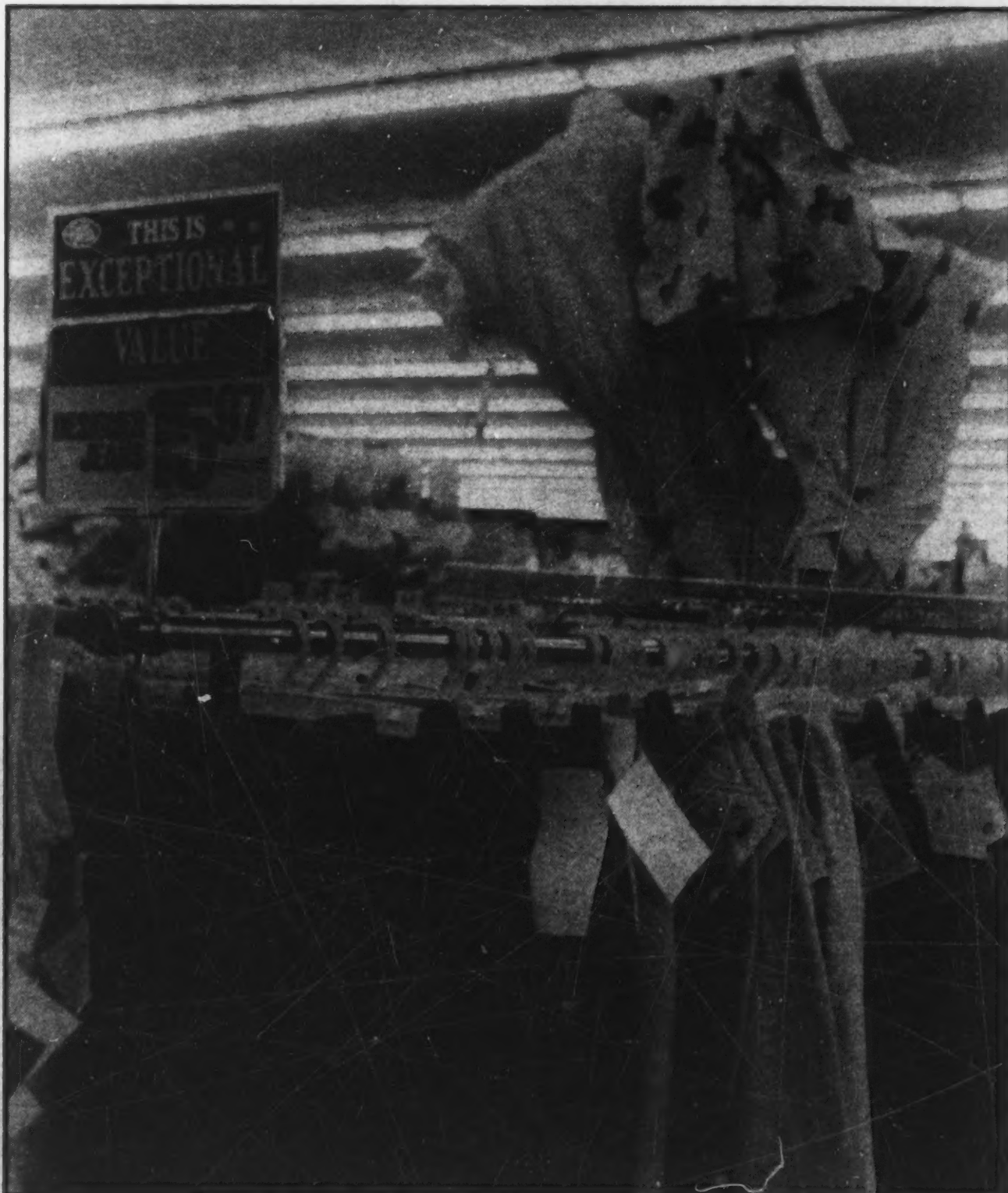
Initial Markup ... 47.4%

Gross Margin ... 31.3%

Source: DSN research



While discounters' average ladies' wear department size will not change this year, sales per store should increase to \$1,948, up from \$1,850 last year.



Lee, Wrangler and Gitano were top rated brands in ladies' apparel last year. Here, \$15.97 designer jeans are offered at Hills, Miamisburg, Ohio. (DSN photos)

Apparel Hotline

NEW YORK — If you have questions or comments about apparel articles or research published by *Discount Store News*, call our Apparel Hotline: 1-800-332-3005. In New York State, call 212-371-9400, ext. 396. We also welcome story ideas and news tips.

COLUMBIA, S.C. — Never one to pass up a bargain, the richest man in America but no slave-to-fashion Sam Walton, chairman of Wal-Mart, plunked down a cool \$80 for a sport coat while here for the recent grand opening of a Sam's Wholesale Club, Wal-Mart's membership warehouse club division. The favored item was a blue silk sport coat, tagged at \$79.99. "Hey, that fits pretty good," Walton said as he tried on the coat while perusing the sales. "Boy, you can't beat a price like that." Now we know where part of Walton's \$4.5 billion personal fortune is going.

SECAUCUS, N.J. — Jamesway Corp. presented its Service Vendor Award for 1987 in its soft lines division to Williamson-Dickie Manufacturing Apparel Company at a luncheon here last month. Pictured, from left, are: Tom Graves, vice president and merchandise manager, Jamesway; Jack Leff, sales manager, Williamson-Dickie; Herbert Fisher, chairman, Jamesway; Bernie Arenberg, vice president, sales, Williamson-Dickie; and Joseph Ettore, senior vice president and general merchandise manager, soft lines, Jamesway.



MARKETWATCH

Discounters Gain Larger Share of Men's Wear

Nationwide DSN Report

Men's and boys' wear sales at full-line discounters and apparel off-pricers are expected to increase by 3.5 percent this year, placing this category at the \$11.8 billion mark.

According to DSN research and industry analysts, unit consumption of men's wear increased 2.7 percent for the last 12 months ended March 31, 1987, with activewear pacing all categories. Boys' wear consumption overall was down slightly by 0.1 percent, but activewear was up 29 percent.

Sales are increasing equally—by approximately \$200 million this year—at both the full-liners and off-price specialists, with revenues up about 2.2 percent at each.

Discounters' share of the overall apparel market increased to 31 percent last year, up from 28 percent in 1983. In men's wear, discounters' share hit 34 percent in 1986, increasing from 29 percent in 1983.

Unlike many men's wear categories, men often buy their own sweat shirts, warmup outfits, shorts and sneakers.

At the full-line discounters this year, gross margins in men's and boys' apparel are expected to slip by 0.2 percent to 34.2 percent, with initial markup falling 2 percent to 44.5 percent.

Sales per store will hit \$1,122, a 4.3 percent increase from last year's \$1,076 figure. Department size will increase by an average of 90 square feet, with sales per square foot up 3.1 percent to \$143.85.

A recent DSN poll showed that unlike many men's wear categories, men often buy their own sweatshirts, warmup outfits, shorts and sneakers.

Possibly because of that, many discounters sell functional activewear in the sporting goods department and then keep a second men's activewear department in the soft lines side of the store.

At Zayre stores last year, the chain revamped its men's and boys' activewear program, using bargain tables. The tables feature \$7 men's jeans and \$4.97 flannel shirts.

Each of the tables (about three per department) are programmed weekly.

Zayre's inner-city fashion focus skewed toward ethnic customers has also been successful.

Zayre has also introduced a new men's dress shirt private label program that the chain featured on a new full-wall presentation of bins at its 360-plus stores.

Fleecewear, which has been a strong seller for the past two years at department and specialty stores, was given its due at many discounters, including Zayre. The chain designed

a program of basic separates at \$8.99, with brands at \$9.99 to \$14.99. Zayre also introduced fully constructed pants made out of fleece.

Bright coloring continues to be a major selling point. Knit tops, sweats and basic denim jeans continue to drive basic business in men's and boys' wear.

In September, discounters will take a look at the hottest spring 1988 looks in men's, young men's and boys' wear at the MAGIC (Men's Apparel Guild in California) show, but will, if past shows are any indications, only item-buy for the icing on their already purchased spring assortments.

The "Miami Vice" look, (Continued on page 126)



Discounters' men's wear sales per store will hit \$1,122 this year, a 4.3 percent increase from sales of \$1,076 last year. (DSN photo)

Men's/Boys' Wear \$11.8 Billion

Full-Line Discounters	\$9.85
Specialty Discounters	\$7.78
Full-Line Discount Store Productivity	
Sales	\$1.122
Sales Per Store	\$1,122
Dept. Size	7,800 sq. ft.
Sales Per Sq. Ft.	\$143.85
Turn	3.2
Initial Markup	44.5%
Gross Margin	34.2%

NA—not available
Source: DSN research

ANNUAL SALE

Get the Most for Your Money

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Crawford's Storage/Organizer program will be sure to fire up your DSN sales in this fast-selling category. These hard-hitting products are designed to meet the storage needs of all your customers... with the minimum number of SKUs.

The Crawford program includes a best-selling selection of tool organizers and racks, wire-coated storage bins and more. It's a complete assortment of peg boards, shelves, and more.

And best of all, the Crawford Storage/Organizer program is easy to buy. Either 2 ft., 4 ft., 6 ft., or 8 ft. programs are available—or we'll customize it to your specific requirements.

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Discounters Capture Larger Share of Men's Wear Market



Discounters' share of the men's wear market hit 34 percent in 1986, up from 29 percent in 1983.

(DSN photo)

(Continued from page 125)

while on the wane, is still influencing some stores' underwear departments with colored briefs and undershirts.

Suspenders, trickling down from the department and specialty store level where they have been a hot item seller, are now also the accessory of choice at many upscale discounters.

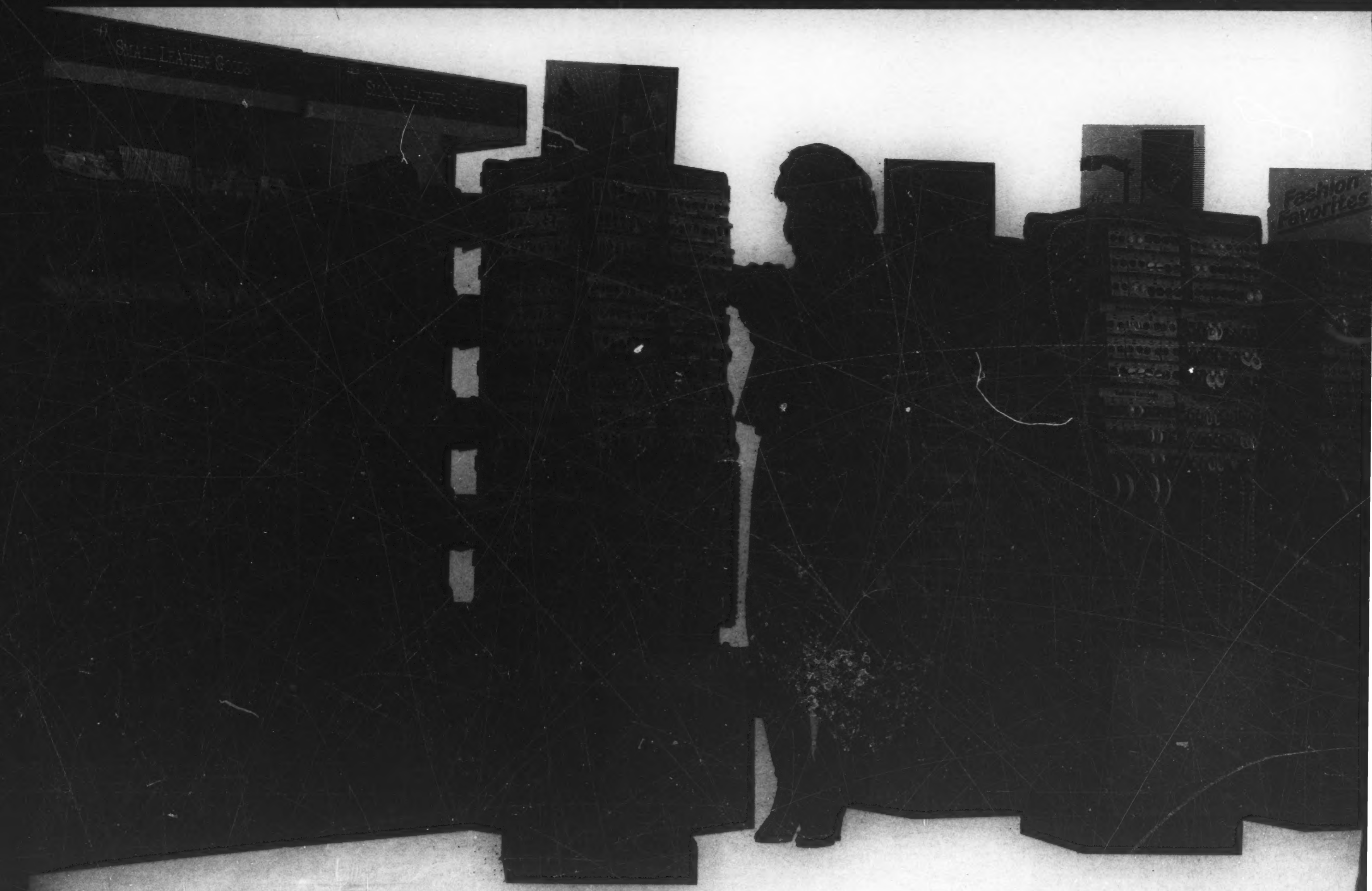
As far as jeans brands go in men's wear, Wrangler and Lee remained the most important. Wrangler strengthened its lead among conventional discounters, and in the minds of many upscale store managers, Lee replaced Levi's as the jean of choice.

Wrangler headed the list of the top 10 brands in last year's DSN Top Brands Report. Lee stayed in second place. Levi's dipped to fifth place.

That Levi's is a significant brand at all for discounters is a testament to its national appeal. The company has steadfastly refused to sell directly to the discounters, forcing chains that want the label to scramble for other sources of supply.

The drop in Levi's rating among discount stores may signify that more upscale discounters are unwilling to hang around Levi's back door when Lee welcomes the business.

Heck's increased its position in soft lines, which the chain expects to represent 30 percent of its total volume by the end of 1988.



Discounters' Jewelry Selections Take On Fashionable Look

Nationwide DSN Report

Jewelry sales nudged higher last year as discounters and specialty stores began enhancing their selections of upper-priced fashion and fine jewelry.

While much of the rising sales can be attributed to greater depth and breadth of merchandise in both these jewelry lines, several retailers told DSN that sales gains can also be attributed to customers who now have greater confidence in the quality of the jewelry offered at discounters.

"The only factor that held the sale of fine jewelry back in the past is the fact that customers looked at the merchandise as being cheap or inferior," said Joseph Ettore, vice president of soft lines for Secaucus, N.J.-based Jamesway.

"The discount stores do not carry junk; we carry the same quality as catalog showrooms and fine jewelry stores. As the customer becomes more comfortable with that fact, it is an automatic way to increase business," Ettore added.

Retail jewelry sales by discounters and catalogers will inch up 2 percent this year to \$4.7 billion, according to DSN research. The largest gain will be recorded by full-line discounters, which posted a sales increase of 13 percent, to \$1.7 billion in 1986.

Jewelry sales at catalog show-

rooms are expected to fall 4 percent from their 1986 levels, to \$2.4 billion.

Specialty discounters will record jewelry sales of \$600 million in 1987, even with their 1986 pace, according to DSN research.

The total sales increase at full-line discount stores will result from substantial gains in sales per square foot, department size and per store revenues.

DSN research revealed that jewelry sales per store will rise \$28,000, to \$209,500, an increase of 15 percent.

Sales per square foot are projected to climb \$18, or 6 percent, to \$322.30, and the size of jewelry departments will rise by 55 square feet, or 9 percent, to 650 square feet.

Last year, merchandise turns remained even at 2.1. Initial markup was also steady at 49.2 percent, and gross margins fell slightly to 40.5 percent from 40.6 percent in 1985.

A number of retailers, including those outside traditional jewelry circles, added jewelry to their mix during 1986.

For example, last fall Crazy Eddie, the consumer electronics retailer headquartered in Edison, N.J., announced that the test it made of 14-karat gold jewelry at its Hartsdale, N.Y., store last July was expanded to its store in Cherry Hill, N.J., and would appear in other stores.

Jewelry \$4.7 Billion	
Full-Line Discounters	\$1.7B
Catalogers	\$2.4B
Specialty Discounters	\$0.6B
Full-Line Discount Store Productivity	
Sales	\$1.7B
Sales Per Store	\$209,500
Dept. Size	650 Sq. Ft.
Sales Per Sq. Ft.	\$322.30
Turns	2.1
Initial Markup	49.2%
Gross Margin	40.5%
Source: DSN research	

T.J. Maxx, Natick, Mass., added 14-karat gold and sterling silver jewelry to three stores last spring.

And Faberge U.S.A., best known for its fragrance collection, will enter the costume jewelry arena this fall with a line called The Faberge Collectibles. The line will include 100 sku's of earrings, rings, necklaces, bracelets, brooches, pendants and chokers priced from \$5 to \$20.

Per item sales in fashion jewelry

are trending upward at discount stores, from \$2 to \$7 or \$8, and in many cases even higher. Caldor reported prices for its fashion jewelry are reaching as high as \$25. This is reflective in some cases of the use of better quality materials like gold-filled posts and of more products made with silver, wood, leather and feathers—more natural materials.

Department store presentations for both fashion and fine jewelry have also been making their way into the jewelry departments of mass retailers faster than before, sometimes lagging just a season or less later, many observed.

Last Christmas, when Jamesway added a diamond program, it also installed full-time sales people in the department who are charged with assisting customer purchases of other fine jewelry items such as watches, plus leather products, razors and ear-piercing services. Recently, it added a children's jewelry program called Baby Love, said Ettore.

The company's jewelry catalog, also unveiled last fall, includes merchandise selling for up to \$2,000.

Last year, Best Products, the 194-unit cataloger based in Richmond, Va., said it would add 10 new stores to its 11-unit Best Jewelry chain and raise the store count to 60 in the next three years.

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AAI
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Annual Report

Home Products

RTA Furniture, Storage Products Take On Fashion Edge



Electric housewares, like these food processors shown in Service Merchandise, Dallas, are expected to remain steady with sales of \$2.2 billion. (DSN photo)

Nationwide DSN Report

Categories within the housewares department underwent significant repositioning during 1986 as did the industry trade show calendar. Merchandise that up until last year had not permitted retailers to earn high margins due to their commodity nature were given new colors, moved to more visible locations within the department and evolved into home decor goods.

Ready-to-assemble furniture, closet/storage and clocks received more prominence and more promotional advertising dollars were devoted to these areas than in the past as these categories transcended their basic utility value into the profitable world of fashion merchandise.

The non-electrics portion of the projected \$12.7 billion mass merchandiser housewares industry is expected to be the only growing area in the department.

In personal care electrics, competition among appliance vendors was intensified by the Underwriters Laboratories' decision to upgrade the

safety features required by hand-held hair driers. Sales are expected to remain at the \$3 billion mark. Initial markup and gross margin on these appliances are expected to suffer from increased competition, dropping to 30.2 percent and 21.1 percent, respectively, from last year when they were 30.6 percent and 21.4 percent.

Other electric housewares appliances are expected to hold to a \$2.2 billion sales level.

RTA Grows as a Category

The basic RTA furniture selection went from few relatively low ticket television, microwave oven and home entertainment units in 1985 to an area within housewares that in some cases was developed as a department in its own right last year. Four, six or eight gondola runs became commonplace as bedroom ensembles and selected dining room pieces were added to the home entertainment furniture core.

Discounters discovered the need for furniture priced under \$200 and filled the void successfully during the year. Just how long it will take until the market is saturated and margins will be forced down as competition rises is anybody's guess. Steady improvements in the production, packaging, hardware and instructions on RTA merchandise have not yet been translated into higher costs.

Corrugated storage boxes and garment bags dressed in pastels, whites, grids and florals helped take the closet department "out of the closet," as one retailer put it.

These items combined with bright and pastel hangers, plastic sweater boxes and shoe racks warranted a more obvious location within housewares instead of hidden with mops, brooms, ironing boards and other merchandise that is difficult to keep well maintained.

Many discounters learned that customers were not willing to pay more than an additional dollar or two for the new designs, but were more likely to shop the category due to the lure of colors.

Clocks that stressed function over fashion dropped in popularity and many discounters took the boxed models off shelves wherever possible.

(Continued on page 132)

Housewares*
\$12.7 Billion

Non-Electrics \$7.5 Billion	
Full-Line Discounters	\$6.9B
Catalogers	\$0.6B
Specialty Discounters	NA
Full-Line Discount Store Productivity	
Sales	\$6.9B
Sales Per Store	\$850,500
Dept. Size	5,800 Sq. Ft.
Sales Per Sq. Ft.	\$146.63
Turns	3.3
Initial Markup	42.2%
Gross Margin	32.1%

Personal Care \$3.0 Billion	
Full-Line Discounters	\$2.8B
Catalogers	\$0.2B
Specialty Discounters	NA
Full-Line Discount Store Productivity	
Sales	\$2.8B
Sales Per Store	\$345,100
Dept. Size	800 Sq. Ft.
Sales Per Sq. Ft.	\$431.37
Turns	3.5
Initial Markup	30.2%
Gross Margin	21.1%

Electrics \$2.2 Billion	
Full-Line Discounters	\$1.7B
Catalogers	\$0.5B
Specialty Discounters	NA
Full-Line Discount Store Productivity	
Sales	\$1.7B
Sales Per Store	\$209,500
Dept. Size	850 Sq. Ft.
Sales Per Sq. Ft.	\$246.47
Turns	3.5
Initial Markup	31.3%
Gross Margin	21.1%

*Includes small electrics, personal care, non-electrics and RTA furniture.
NA—not available

Source: DSN research

MARKETWATCH

CHICAGO — The National Housewares Manufacturers Association (NHMA) has hired Janet Diedrichs & Associates as public relations counsel to help promote the January and July 1988 International Housewares Shows to be held here at McCormick Place. Next year will be the first time The Interface Group's HouseWorld Expo and the NHMA show will compete with each other for the same housewares industry audience.

CHARLESTON, S.C. — Linens 'N Things will enter the Charleston market this summer with a 7,500-square-foot store in the new North-Rivers Market shopping center, the

largest value-retail shopping center developed by Centennial American Properties, Atlanta. When the store opens late this month or early August, the unit will be the 135th Linens 'N Things. The new store will be part of the 320,000-square-foot shopping center which will include Toys "R" Us, Marshalls, Phar-Mor Drugs and Hechinger. Centennial American Properties also handles developments in such cities as Greenville, S.C., and in Jacksonville and Gainesville, Fla.

WASHINGTON — Commenting on trends in consumer electronics products, the Electronic Industries Association noted that the market

for intelligent copier/printers is expected to show substantial growth. The association noted that two major manufacturers estimated that approximately 300,000 copiers were in home offices in 1986, and that this number should double by 1990. Another copier maker estimated that 30,000 copiers valued at approximately \$3 million were used this year for personal use. The association also noted that new technology under development includes models with low manufacturing costs and increased service reliability.

CHICAGO — The selection of microwave oven cookware is rapidly increasing, according to a recent report

issued by the Association of Home Appliance Manufacturers. The report warns that microwave oven cookware designed also for use in conventional ovens cannot withstand extreme high temperatures and recommends that the label be checked for the recommended maximum temperature. The report from the association also breaks down the different types of cookware for microwave ovens now available on the market. For use in microwave and conventional ovens: ceramic products, glass products and permanent plastic cookware. For use in microwave ovens only: permanent plastic cookware, reusable plastic or paperboard cookware and freezer-to-oven storage/cooking containers.

RTA Furniture, Storage Products Take On Fashion Edge



Discounters are expected to capture \$11.4 billion of a \$12.7 billion housewares market, including small electrics, personal care, non-electrics and RTA furniture.



RTA furniture grew from few TV, microwave and home entertainment units to an area that in some cases was developed as a department in its own right. (DSN photos)

Olympus takes you to Infinity. And beyond. Infinity and the new Infinity Jr.

Once again Olympus has stretched the auto focus lens-shutter camera horizon. Last year's weatherproof Infinity was just the beginning. Now Infinity has a partner: the amazingly affordable Infinity Jr. And the match is perfect.

Infinity Jr.—the lightweight auto focus compact camera that performs like a heavyweight Light, small, stylish. And, of course, fully automatic.

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Powered by AAA batteries or long-life lithium battery pack (Duracell DL 123A), Infinity Jr. sports a flash system without peer at its price. It fires *automatically* when needed, recycling every 2 seconds with lithium battery pack.

Then add such unique features as a self-timer with 12-second delay, battery check LED, close focusing down to 26 inches, and center-weighted light measuring. Plus fully automated film handling—loading, DX-film speed setting, winding and rewinding—that is easily demonstrated.

And you have another Olympus compact auto focus 35mm that will add punch to your profit picture.

Infinity does it all—for you Alongside the Infinity Jr., Infinity becomes the ideal "point-and-shoot" *step-up* camera. Every function from load to rewind is automatic. Plus the special features of weatherproof construction



and automatic ESP Quick Flash. With weatherproof seals to lock out moisture, Infinity turns even foul weather into a photo opportunity. For all your compact auto focus customers looking for a "go anywhere" camera, Infinity is more than just a fair-weather friend.

ESP Quick Flash combines the revolutionary Olympus ESP exposure system with a long-life lithium battery pack for an automatic flash system without peer. It fires when needed, in both low light and backlit situations. And recycles every second! For up to 5 years of normal use on a single battery pack.

Which means Infinity is still light years ahead of the rest.

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Call your Olympus Sales Representative toll-free, any time, any day: 1-800-631-7777 (in NJ, 1-800-522-4159). Or write Olympus Corporation, Consumer Products Group, Crossways Park, Woodbury, NY 11797.

OLYMPUS
Infinity & Infinity Jr

(Continued from page 130) ble, replacing them with wall displays of bright, mirrored, juvenile, brass, pastel and other highly visible room design complements. As long as the decorative updates didn't go too much beyond the \$20 price point, many middle- to upper-end discounters reported good sell-through.

In personal care, retailers won't know for sure just how much the new UL safety guidelines and higher hair drier prices will affect customer buying habits. The new UL guideline stated that hair drier manufacturers must make appliances that won't cause an electrical shock when immersed in water when the unit is plugged into a wall outlet in the off position. Due to the price-sensitive nature of the category, the degree to which the manufacturer can keep costs down when meeting this new standard has the potential to make or break sales.

Trade Show Scheduling

Last year also marked a rash of changes in the industry trade show layout and agenda.

For the first time the National Housewares Manufacturers Association attempted to color-code and categorize the products being displayed by its members. The move received mixed reviews from attendees; some felt the NHMA had made the show's eight miles of exhibition space easier to cover, while others thought it made little difference since overlap among the categories required they walk the entire complex anyway.

In 1986, the NHMA switched from two shows to one show and then back to two shows again, creating havoc in the national trade show industry. Private exhibition groups rushed to the service of those who said they required a second housewares show, only to invest advertising monies for naught when NHMA chief, Jay Spaulding, reinstated the two-show format this year.

While at one time there were at least three different groups sponsoring alternative housewares shows, now The Interface Group's House-World Expo stands as the only exhibition company that has decided to go ahead with an alternate show despite Spaulding's announcement.

ANNUAL REPORT

CONSUMER ELECTRONICS

CE Sales Dampened by Fizzling VCR Market

Nationwide DSN Report

While the consumer electronics industry on the whole is rather healthy with plenty of product innovation at the high end, discounters' consumer electronics business has remained fairly flat the past year. Prospects for the future are better as the high-end innovation should eventually result in renewed sales vigor.

Discounters' CE business was plagued by the fizzling-out of the VCR boom, the continuing devaluation of the dollar against the yen, and intensified competition as well as a lack of product information to combat consumer confusion and create demand.

The Electronic Industries Association reported overall industry sales for 1986 reached \$28.7 billion. EIA research projects the industry to pass \$30 billion in volume at the factory level this year. By the end of 1988, industry growth is only estimated to be around \$31 billion.

CE Sales Total \$12.6B

Full-line discounters, catalogers and specialty chains are expected to generate \$12.6 billion in CE sales this year, slightly up from last year's \$12.5 billion, according to DSN research. Full-line discounters will generate the same volume of \$6.3 billion as in 1986, specialty discounters will increase their CE sales to \$5.5 billion from \$5.3 billion, while catalogers' CE sales are expected to decline to \$800 million from \$900 million.

Productivity measurements show that sales per store for full-line discounters will increase from \$761,600 to \$776,600 and sales per square foot will rise from \$331.30 to \$337.65.

In contrast, a report by Kidder, Peabody & Co. found that the average sales per store for public specialty CE retailers is \$7.5 million and the average in sales per square foot is \$921.

Department size for full-line discounters will remain at an average of 2,300 square feet, while turns will rise from 3.1 to 3.3. However, initial markup for full-line discounters is expected to fall from 31 percent to 30 percent and gross margin will slide from 18.9 percent to 17.2 percent.

By comparison, gross margin for specialty CE retailers averaged 29.4 percent during the last fiscal year, with inventory turnover averaging 4.0 times, reported Kidder Peabody & Co.

The investment firm's analysis also showed that the largest shift in market share since 1982 occurred between the independents (defined as a chain with less than 10 stores), decreasing from 53 percent to an estimated 40 percent this year, and the electronics/appliance specialty chains, growing from 8 percent in 1982 to an estimated 20 percent this year.

Mass merchants increased their market share slightly from 20 percent in 1982 to an estimated 21 percent in 1987, with catalog showrooms stay-

ing between 4 percent to 5 percent since 1982, the report said.

The wave of the VCR revolution that many retailers were able to ride to generate profit has virtually disappeared. The growth in industry VCR sales slowed from 64 percent in 1984 to 33 percent in 1985 and 12 percent in 1986.

Discount stores as well as top CE specialty chains agree that the new technological innovations of Super VHS, CD-Video and Digital audio tape will not generate substantial sales volumes for some time.

Usually manufacturers look to sales of new innovative products in Japan for an indication as to how the products will sell in the U.S. Currently,

digital audio tape recorders recently introduced in Japan and selling for around \$1,400 are not taking off as many manufacturers expected.

And manufacturers are feeling the pressures of the currency fluctuation of the dollar against the yen in determining retailers' costs. Most buyers agree that rather than having the manufacturers cut their costs, they would like to see more consumer demand created to enable them to make their margin.

Retailers feel a need for more demand created for such categories as compact disc players, camcorders and home office products. EIA reported that while market penetration of compact disc players in-

creased by over 40 percent in just six months, the consumer penetration level remains at only 7 percent.

The home office product category is emerging as a viable market for discount stores and consumer electronics chains. However, due to its newness to retailers' product lines, many are not sure how to market the products and feel the market needs to be more clearly defined.

Camcorders are one of the fastest growing product categories for retailers. Sales for camcorders are up 50 percent in the year to date, EIA said. The association projects sales to reach more than 1.6 million units by the end of 1987, a 37 percent increase over 1986.

Consumer Electronics
\$12.6 Billion

Full-Line Discounters	\$6.3B
Catalogers	\$0.8B
Specialty Discounters	\$5.5B

Full-Line Discount
Store Productivity

Sales	\$6.3B
Sales Per Store	\$776,600
Dept Size	2,300 Sq. Ft.
Sales Per Sq. Ft.	\$337.65
Turns	3.3
Initial Markup	30.0%
Gross Margin	17.2%

Source: DSN research

Another Winner

BATH TRIM 'n SEAL

MADE IN THE U.S.A.

DOMESTICS

ANNUAL REPORT

Upgraded Domestics Help Create Home Sections

Nationwide DSN Report

Full-line discounters and specialty stores will increase their shares of the \$4.9 billion discount domestics market this year, apparently at the expense of catalogers, according to DSN research. Overall, sales are expected to rise 2 percent from last year's \$4.8 billion.

Full-liners' sales will climb to \$3.7 billion from \$3.6 billion, while specialty discounters are expected to add \$100 million to their total, now at an even \$1 billion dollars. Catalogers, whose involvement in soft lines has always been tentative at best, will see their sales shrink 33 percent, from \$300 million to \$200 million.

Much of the sales growth can be attributed to discounters upscaling their product lines and creating "home stores" within their outlets by combining domestics, furniture and housewares, or by moving these departments closer together. Most major chains have added luxury goods to attract department store shoppers and are narrowing their focus to pinpoint specific consumer segments.

That strategy worked well with men's fashion, and evidently has found acceptance in the growing youth market. Children have started making their wishes known to a degree never seen before in a wide spectrum of products, from clothing to wallpaper, and domestics is no exception. Sheets, pillowcases and comforters in a wide variety of youth-oriented design schemes, most fueled by television and the toy market (which are rapidly becoming one and the same thing), have been actively promoted by discounters. Some have added sub-departments aimed at the youth market.

Since swearing off the plain white sheet, discounters have rapidly escalated their color and fashion offerings. Watercolor-look bedding was particularly hot this year, and higher-end outlets like The Home Front are offering hand-stitch-look comforters and spreads with vivid florals and geometric designs.

The key, according to industry observers, is the perception of quality. Most domestics shoppers are familiar with terminology, and are well aware of what thread counts refer to. And they are far less resistant to higher price points.

Discounters are now almost head-to-head with department stores, and are finding that they have to provide equivalent goods to remain competitive. That has led to the introduction of brand names like Gloria Vanderbilt, Pierre Cardin and Playboy, as well as greater reliance upon well-known textile mills like Cannon, J.P. Stevens and St. Marys, the latter two of which have increased their market share against Cannon's hegemony.

Consumers have clearly shown that they have "outgrown" mere price orientation (quality is listed as the most

Domestics aimed at children are becoming an important segment of the category. Sheets, pillowcases and comforters in a wide variety of youth-oriented design schemes are now being actively promoted by discounters.

important consideration in virtually every category except shower curtains and pot-holders) and will, if they must, pay department store prices.

Also playing a role in the general upscaling and fashion orientation is consumer preference for coordination throughout the house. Customers are searching for quality design complementary to

their furniture, wallcoverings and general decor—to the point that many non-apparel designers are becoming household names. As a rule, the better known designers are featured by the better quality manufacturers.

Discounters have slowly closed the gap with department stores and mass merchandisers like Sears and Pen-

ney's over the past decade, and actually lead the competition in minor areas like shower curtains. Bedspread sales are split almost equally between the three categories, and discounters generally finish a strong second in other areas.

Sales have been fueled by recognition of specialized markets, like waterbed accessories and foam and fleece pads.

DSN research on full-line discounters' department productivity reveals that sales per square foot will rise slightly, while turns and margins should hold steady. Added together, those figures indicate slightly higher price points than the previous year, which is consistent with a perception of general upscaling.

Domestics \$4.9 Billion

Full-Line Discounters \$3.7B

Catalogers \$0.2B

Specialty Discounters \$1.0B

Full-Line Discount Store Productivity

Sales \$3.7B

Sales Per Store \$456,100

Dept. Size ... 3,150 Sq. Ft.

Sales Per Sq. Ft. \$144.80

Turns 2.5

Initial Markup 44.2%

Gross Margin 35%

Source: DSN research



Annual Report

Hard Lines

Specialty Chains Cut Deeply into Full-Liners' Auto Shares

Nationwide DSN Report

Although the automotives aftermarket is considered a mature, flat market, try telling that to those who market specialty auto parts for pickups and vans and the top auto specialty chains.

Sales figures for specialty chains—and their profits where available—suggest automotives departments of full-line discount stores have their work cut out for them.

Out of the top 11 specialty chains, seven logged double digit sales growths for 1986. Some examples: 25 percent at the Pep Boys—Manny, Moe & Jack, Philadelphia, and 35 percent at Auto Shack, a privately held chain based in Memphis, Tenn.

Moreover, the specialty truck and van aftermarket is predicted to grow by 11.2 percent a year through 1990, or 2½ times the growth of the overall automotives market.

Customized Pickups

In many cases, the pickup has become the hot rod of the '80s. And those who spawned the specialty market by customizing their hot rods in the '60s are willing to spend hundreds, if not thousands, of dollars to make their pickups run better than and look different from the pack. In some circles, vans, pickups and four-wheel drive vehicles have now become the status vehicles of the decade.

Accordingly, the Bradlees store that opened in Newark, Del., in March features a new specialty section that handles such items as pickup running boards and bed liner mats for pickups at \$79.99 prices.

The discounter share of the parts aftermarket is projected at \$9.7 billion for 1987, little improved from \$9.6 billion in 1986. The full-line discounters' share of that is expected to edge up to \$5.5 billion from \$5.4 billion, while the share of catalogers will hold flat at \$100 million. Sales of specialty discounters, however, are expected to grow to \$4.1 billion from \$3.9 billion last year.

Other forces at work in the aftermarket are rubbing the polish off the do-it-yourself market and have coined a new phrase, do-it-for-me.

With the introduction of computer engine controls, modern cars are becoming too complex for many back-

yard mechanics. Moreover, the driving population is aging, and the older the drivers get, the less inclined they are to spend Saturday mornings changing the oil in their cars.

Another factor depressing the auto aftermarket is that parts are lasting longer. In large part because spark plugs are good for 25,000 miles instead of 10,000, Champion is diversifying into such products as filters. Tires commonly can last for 70,000 miles, where 25,000 once was standard.

Providing service and appealing to women—buyers of 22 percent of pickup trucks—are other hallmarks of aggressive merchandising.

However, Target and Gold Circle both have dropped as unprofitable their automotives services, which is keeping the Pep Boys zooming along in high gear.

Service Works for Pep Boys

New Pep Boys stores in Sacramento, Calif., for example, feature nine and 10 service bays. In large measure, Pep Boys credits gains in automotives service and installation for the 51.3 percent increase in first quarter earnings to \$5.9 million from \$3.9 million in the same period of 1986. Sales gained 15.2 percent to \$127.3 million from \$110.5 million.

The retreat of Target and Gold Circle from the service arena enabled K mart to make further gains. It follows a policy of catering to women automotives buyers and providing service.

Out of some 2,200 K mart stores, 1,500 offer automotives service, but K mart evaluates the profitability of each service center.

Surveys over the year indicate that automotives buyers, especially for motor oil, remain loyal to their brands. K mart has beefed up its mix of branded and private label parts by increasing branded products by 15 percent. In another move to capitalize on the customer preference for branded goods, K mart is negotiating with Delco to provide batteries that carry both the Delco and the K mart labels.

Among brand promotions, Prestone antifreeze came in second out of 48 brand products that consumers knew discount chains were promoting, and Quaker State motor oil came

in No. 7. And motor oils continue to dominate brands. Out of 10 top automotive brands discounters carry, five were motor oils. Among the top five, three were oils. Quaker State and Pennzoil led the field, followed by Fram, Prestone and Havoline.

Many discounters have found a way to squeeze a penny or two profit per quart out of motor oil, traditionally a loss-leader, by offering oil by the 12-quart case as well as by the quart. Valvoline helped that trend along by offering a \$3-a-case rebate, plus a \$2 bonus.

In other oil developments, fill-top plastic bottles have virtually replaced the oil can that required a separate pouring spout. And few discounters are carrying more than one brand of the relatively new 5W-30 motor oil that many four-cylinder cars require.

Automotives
\$9.7 Billion

Full-Line Discounters	\$5.5B
Catalogers	\$0.1B
Specialty Discounters	\$4.1B

Full-Line Discount
Store Productivity

Sales	\$5.5B
Sales Per Store	\$678,000
Dept. Size	2,400 Sq. Ft.
Sales Per Sq. Ft.	\$282.50
Turns	2.8
Initial Markup	33.8%
Gross Margin	25.2%

Source: DSN research



Many discounters have found a way to squeeze a profit out of motor oil, traditionally a loss-leader—selling it by the case as well as by the quart. (DSN photo)

MARKETWATCH



SECAUCUS, N.J. — Jamesway, the nation's 16th largest full-line discount store, presented its Hard Lines Division 1987 Service Vendor Award recently to Liberty Distributors. Pictured, from left, are: Herbert Fisher, chairman, Jamesway; Ed Margolin, president, Liberty; Larry Fine, vice president and merchandising man-

er, hard lines, Jamesway; and Arlie Lazarus, president, Jamesway.

WORCESTER, Mass. — The best features manufacturers can build into their promotions to retailers are price discounts, extended dating and the flexibility to chose the time of year to run the promotions, the Norton Company found in a survey of retailers. Norton's consumer products division, sandpaper and abrasives, learned that 91 percent of survey respondents ranked price discounts either first or second. In addition, 45 percent ranked extended dating first or second, 37 percent valued co-op advertising dollars as their top choice, while 14 percent ranked sup-

port materials as their priority concern. Based on survey findings, Norton has developed what it calls its Dealer's Choice promotion program to permit distributors and retailers to tailor promotions to their fit own priorities.

SALT LAKE CITY, Utah — Associated Charter Catalogs has re-elected Jay Siegel of U.S. Merchandise as president of the catalog association. Tom George continues as senior vice president, chief operating officer and catalog coordinator. George Wilson, Wilbro Catalog Showrooms, was elected executive vice president and Jerry Friedman, Value House, filled his previous post

of treasurer. John Walkenhorst, Walkenhorst's, was elected secretary.

CLEVELAND — Catalog U.S. Merchandise, a member of the Associated Charter Catalogs group, has opened its fifth showroom, a 21,000-square-foot unit in Elyria, Ohio. The company plans to unveil a unit in the Greater Cleveland area next year as its sixth showroom. It will be U.S. Merchandise's fourth store in its home market, where its main showroom competitor is Best Products. The new showroom was opened in a strip center across from the Midway Shopping Center, a major regional mall.

TOYS

ANNUAL REPORT

Toys
\$8.7 BillionFull-Line
Discounters \$4.6B

Catalogers \$0.7B

Specialty
Discounters \$3.4BFull-Line Discount
Store Productivity

Sales \$4.6B

Sales Per Store \$567,000

Dept. Size 2,560 Sq. Ft.

Sales Per Sq. Ft. \$221.48

Turns 2.9

Initial Markup 37%

Gross Margin 27.2%

Source: DSN research

Cautious Toy Buyers Concentrate on the Basics

Nationwide DSN Report

Last year was a relatively cautious year for toy buyers. A "back to basics" atmosphere pervaded the industry and Lazer Tag emerged as one of the hot products to drive fourth quarter sales.

1987 will not be that much different in terms of cautiousness on the buyer's part as well as "back to basics" continuing as the trend. However, one distinction that has retailers concerned and is creating a major challenge for them is the current absence of a hot product to drive this year's Christmas sales.

U.S. retail toy sales rose just under 5 percent to an estimated \$12.5 billion in 1986 from \$12 billion in 1985, ac-

cording to the Toy Manufacturers of America, the industry's trade association. William Garrity, board chairman of the association, estimated 1987 toy sales to grow about 5 percent.

Discount stores had the largest percentage of total industry sales, accounting for 33 percent in 1986, reported the NPD Group. Toy stores were second, generating 27 percent, while department stores generated 12 percent. Catalog showrooms garnered 6 percent of the toy market, while variety stores generated 4 percent and all others constituted the remaining 18 percent of sales.

According to DSN's research, full-line discounters,

specialty discounters and catalogers expect to generate \$8.7 billion in toy sales this year, up from an estimated \$8.1 billion last year. Full-line discounters will increase their toy sales from \$4.4 billion to \$4.6 billion, while specialty discounters will go from \$3.1 billion to \$3.4 billion. Catalogers will generate \$700 million in 1987, compared to \$600 million the previous year.

Breaking down the full-line discount store toy productivity further, sales per store are expected to rise to \$567,000 from \$531,900 the previous year. Department size, on the average, remains at 2,560 square feet. One exception to this rule is Canton, Mass.-based Hills Department

Stores, which averages 5,000-square-foot toy departments with toy sales generating over 10 percent of total stores' sales volume.

For the full-line discount store industry as a whole, toy sales per square foot are expected to be \$221.48, up from \$207.81 last year. Turns will increase to 2.9 from 2.7, and initial markup should rise from 36.8 percent to 37 percent. However, gross margins are expected to decline from 27.8 percent last year to 27.2 percent.

The largest distribution shift since 1982 occurred between department stores, which decreased from 21 percent to 12 percent of sales, and toy stores, which increased from 17 percent to 27 percent in 1986.

Industry Change

Another major change that has occurred this year in the industry is that it is becoming much more buyer/merchant-driven, rather than manufacturer-driven, thanks to the greater variety of product available at earlier dates, allowing retailers much more flexibility in making their buying plans.

While buyers agree the shift in flexibility has been good for sales, they agree it can also hurt the industry.

It seems that manufacturers have eased off on production and trimmed dollars spent on advertising, which is hurting the industry, said William Langus, president, Toy & Sport Warehouse, New York. This year, when manufacturers brought out their products early, they saw that expected orders were lagging and softening their TV advertising exposure, said Langus. And shortages may not exist this year because of products being shipped earlier with more choices available, which can also stifle consumer demand, he said.

"It seems that we are going back to the basic toy business from eight to nine years ago, when we struggled for the first months and in the fourth quarter brought back profit," Langus said.

And "back to basics" may be here to stay in the toy industry as more consumers are becoming price conscious and seeing better value for their money in basics, while retailers are seeing more margin return with basic product.

Avon, Mass.-based Child World expects the new high-tech interactive toys introduced this year to have the same type of positive effect as the animated talking toys did last year in boosting its business, said Gilbert L. Wachsmann, president of Child World.

"I doubt that interactive toys and talking dolls will generate any significant volume due to being too expensive and because of the confusion they will create for the customer," said Joseph Chiang, chairman of the executive board of directors for Merchants West, which operates a California chain called Karl's Toys.

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Nationwide DSN Report

Women DIYers

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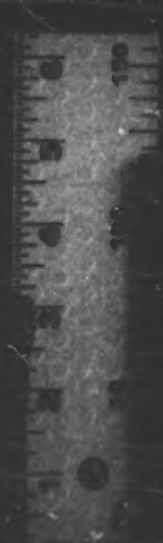
Revamping Hardware

The new centers occupy 6,000 square feet of space and most counters run 35 feet to 45 feet long.



Discounters' share of hardware sales—including paint—is projected at \$6.8 billion for 1987, from \$6.6 billion in 1986. (DSN photo)

Hardware*	
\$6.8 Billion	
Full-Line Discounters	\$6.7B
Catalogers	\$0.1B
Specialty Discounters	NA
Full-Line Discount Store Productivity	
Sales	\$6.7B
Sales Per Store	\$825,900
Dept. Size	~ 400 Sq. Ft.
Sales Per Sq. Ft.	\$187.70
Turns	2.5
Initial Markup	41.8%
Gross Margin	32.7%
*Includes paint. NA—not available	
Source: DSN research	



Fishing, Camping, Cycling, Walking Replace Exercise Craze

Nationwide DSN Report
"Back to basics" remained the central theme in the flat sporting goods market through 1986 and into this year, as consumers turned away from the once-hot exercise category. "The whole industry is waiting for something new," said Herman's Walker vice president George Walker, and discount buyers nationwide echoed that same sentiment.

Sales industrywide were flat, remaining at the 1985 level of \$6.1 billion. Full-line discounters once more had the lion's share of the market, \$4 billion total. Catalogers also held steady at a half billion dollars, but specialty retailers stepped up significantly to \$1.6 billion, a 14 percent gain over 1985's \$1.4 billion.

Demographically and psychologically, the new analytical buzzword, the slowing of the exercise equipment category makes sense. Americans are tiring of the anorexic look of joggers and compulsive exercisers, and are evidently looking for fun, social activities that will get them outdoors and provide them with more natural exercise.

Also, as the population ages, there is a predictable movement away from potentially harmful levels of exertion to forms of exercise that are kinder to stiffer muscles and more brittle connecting tissue.

out fancy shoes. And, once they accept the need for special shoes, there's the matter of aesthetics. "Walking shoes look funny," Herman's Walker pointed out. "The industry still has a way to go in design and cosmetics."

So far, older Americans do seem to be taking to walking. The activity is relatively easy, healthful and, an important consideration, social. The solitary jogger is slowly being replaced by groups out for a stroll. Whether or not it will

ever become the next "big thing" as manufacturers predict, however, is a very open question. Results, retailers say, are encouraging but hardly decisive.

However, other activities with many of the same elements are doing extremely well. Fishing, biking, camping and swimming are all social activities with low to medium levels of exertion that keep participants outside and are generally perceived to be fun.

Fishing has been rising in

popularity for several years, and seems poised to really take off. As Orlando Wilson, host of the popular WTBS cable television show "Fishing With Orlando Wilson" put it, "Everyone can do it and, more important, they can spend whatever they want for it." He pointed out that the sport fisherman with thousands of dollars worth of equipment and the beginner with a home-made stick-and-string outfit are participating in essentially the same activity.

Fortunately for retailers, the average fisherman falls somewhere in between the two extremes, and his most common source of supply is the discount store. Discounters have seen sales gains in the 10 percent to 12 percent range over the last year, and most of them see the growth in this area continuing.

Bicycling is another lucrative growth area, particularly at the higher end. Once again, it is usually a social sport (al-

(Continued on page 149)

Sporting Goods \$6.1 Billion	
Full-Line Discounters	\$4.0B
Catalogers	\$0.5B
Specialty Discounters	\$1.6B
Full-Line Discount Store Productivity	
Sales	\$4.0B
Sales Per Store	\$493,000
Dept. Size	2,500 Sq. Ft.
Sales Per Sq. Ft.	\$197.20
Turns	2.0
Initial Markup	37.2%
Gross Margin	28.5%
Source: DSN research	

One consequence of these trends is the sporting goods industry's great hope, walking shoes. Jogging is perceived by older participants to be too strenuous, particularly to aging knees and cardiovascular systems.

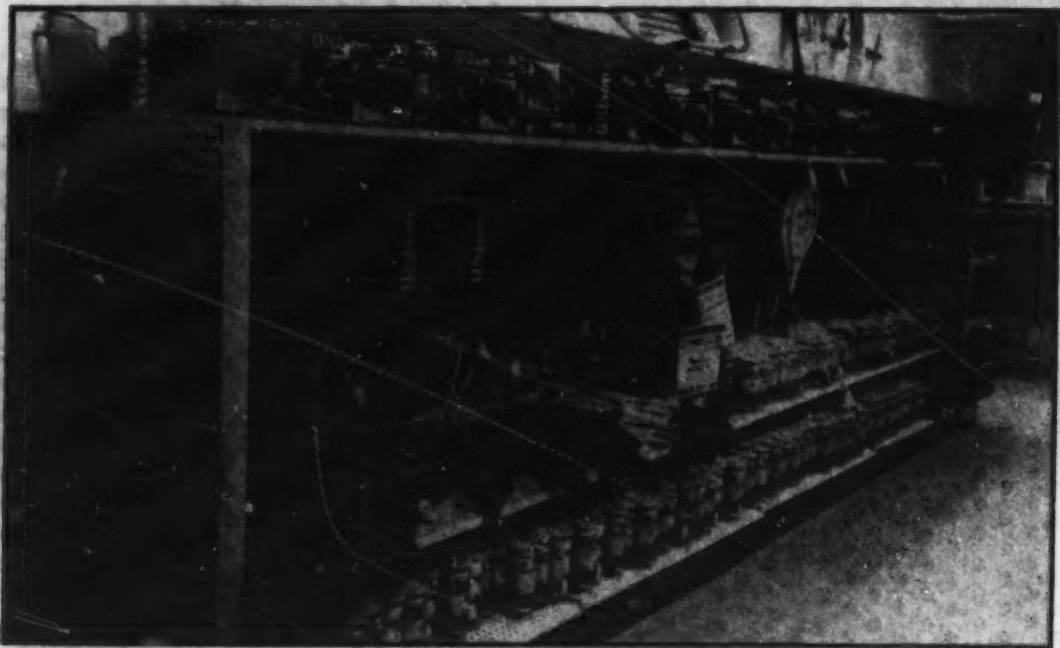
Enter sport walking, billed as a truly healthful and pleasurable form of exercise. When performed correctly (there is a trick to it), walking can burn as many calories and exercise muscles and respiratory systems as well as jogging, without side effects like shin splints, knee damage and torn muscles.

The problem, of course, is convincing frugal Americans that they need special equipment to do something they've been doing all their lives with-



ANNUAL REPORT

SPORTING GOODS



Basic sporting goods products are experiencing a resurgence at both full-line discount stores and specialty outlets. (DSN photo)

Fishing, Camping, Cycling, Walking Replace Exercise Equipment Craze

(Continued from page 148) though the exertion level is obviously much higher than fishing), relatively inexpensive, and perceived as healthy and fun. Many retailers name bicycles as their single best sporting goods category. However, other retailers complain that margins on this product are not what they used to be.

Camping, spurred by rela-

tively low prices for innovative and high quality equipment, is another growth category. Like fishing (and to a lesser extent, biking), it is also a good trade-up area. However, supplies and price points are extremely vulnerable to import quotas and tariffs, which could be enacted within the year.

Other categories that seem to be performing well and

should continue to do so include basketball, hiking, skateboards and swimming equipment.

These trends have been amply illustrated in what full-line discounters choose to promote. In a recent newspaper insert, K mart dedicated a full page to sporting goods. Included were six different bicycles, fishing gear, water skis, softball gloves, camping equipment and golf clubs. Conspicuous by its absence was any mention of exercise equipment.

A ShopKo catalog contained 20 pages of camping, biking, golfing, fishing and team sports equipment with no mention of exercise goods. A Zayre Father's Day circular included a compact exercycle (at \$29.86) in nearly two pages of sports equipment.

Sports Clothing

In soft goods, sports clothing will continue to do well, mainly because many Americans of all age groups and athletic achievement have adopted sports clothing as their preferred leisure attire. Even non-participants seem to favor the look of athletic wear during their off hours, and many discounters have reacted by establishing whole activewear departments, or by accenting the goods within their apparel sectors.

Given the current fascination with the jock look, can the first fleece three-piece suit be far off?

Like apparel, Americans seem to have decided that athletic shoes are perfectly viable in all but the most formal settings. And they're buying more of them than ever.

The Reebok explosion of 1986 may have underscored the point, but the growth of athletic shoes as fashion items has been in progress for several years—and it shows no sign of slowing down. Like camping equipment, though, there may be storm clouds on the horizon in the form of trade restrictions.

Firearms, except for air rifles, have maintained their market position, and done little more, apart from a few isolated models. One buyer noted that the item was a "cash cow," but felt that the level of help required in the department to keep it profitable was difficult to maintain.

Otherwise, the biggest news in the sporting goods arena has been the infighting among several top specialty chains as they attempt to expand at an acceptable cost. Herman's has apparently been the big winner so far, but Thrifty Corp., which owns three of the top 10 chains, is evidently building itself up to become a national presence. However, Herman's is on a track that may boost its category-leading sales by over 50 percent in a two-year period.

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Answers:

1. c, 2. a, 3. c, 4. b, 5. b

HEALTH & BEAUTY AIDS

ANNUAL REPORT

Health & Beauty Aids
\$5.9 Billion

Price Wars Cut H&BA Margins, But Sales to Rise



Discounters are likely to increase the size of their H&BA departments and offer a broader selection of brands. (DSN photo)

Nationwide DSN Report

Competition is expected to continue to chip away at the margins of the already low-profit health & beauty aids business at discount department stores, but higher sales volume will hopefully balance out the equation.

Discount department stores, deep discount drug store chains, supermarkets and superstores are each vying for volume.

DSN projects a modest \$1 million increase in H&BA sales volume to \$5.9 billion during 1987, combined with a 0.3 percent drop in both initial markup and gross margins this year to 25 percent and 19.3 percent, respectively, as competing retailers try to un-

dercut each other's prices on H&BA basics.

To gain the loyalty of a larger customer base, discounters are likely to increase the size of their H&BA departments and offer a broader selection of brands. Some will also add facings to reduce the number of times store level workers will need to restock.

Merchandising Areas

The size of the merchandising area is projected to increase to 3,200 square feet this year. Even though the selling area is growing slightly, the sales generated by each square foot is projected to rise to \$227.28 from \$223.25. Sales per store are projected to jump to \$727,300 during 1987 from \$701,000 last year.

Ethnic H&BA, condoms, alternative fragrances, rising cosmetic sales and contact lens treatments are factors in the projected rise.

Last year, discounters held onto their 8 percent share of the ethnic market, even though the average price of the purchase rose while the average unit price fell, according to the Chicago-based American Health & Beauty Aids Institute.

The addition of more expensive brands was one reason for the average price increase. Cosmetic purchases this year by black shoppers is expected to grow from \$2.7 billion to \$3 billion, according to the U.S. Commerce Department.

The growing threat of AIDS has spawned a new condom buyer. With women joining the ranks of male shoppers and advertising by the manufacturers becoming more prominent, this \$115 million market is likely to grow.

Cosmetic and fragrance sales are expected to become even more price sensitive this year, resulting in a wave of new low-ticket, discount shoppers. As the size of that market swells—it is expected to grow by 2.6 percent this year and continue at a 2.8 percent rate through 1991, according to the Commerce Department—so should the price-conscious population.

Alternative Fragrances

As alternative fragrances continue to establish themselves as brands in their own right and develop a loyal user base, those chains that offer the preferred lines will reap the benefits of knowing what their customers want.

Eye care is another category within H&BA that experienced growth in 1986. And this category is expected to get even bigger this year. Discount store distributor Boston Distributors said the eye care category was the single largest growth category it had last year, surging 31 percent over the 1985 volume.

Nationally the industry grew 16 percent to \$795 million last year. Soft lens preparations are where the growth will be, with 90 percent of all new contact lens users opting to use soft lenses. Last year, 67 percent of all lens wearers wore soft models.

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5. ADD "SIZZLE" TO YOUR STORE DESIGN AND LAYOUT
6. WINNING MARKETING STRATEGIES FOR DECORATING RETAILERS

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6. SELL 'EM UP TO QUALITY
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9. PAINT - What's The Problem and How To Solve It
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SLR Cameras Offset Slow Sales of Disc Format

Nationwide DSN Report

The photo/camera market acted its age over the past year; as a mature category, its sales are expected to be flat this year, according to DSN research.

Industrywide, total consumer photo sales should be \$18 billion, the same as in 1986 and some \$700 million less than the previous year. Of the \$3.6 billion spent at discount outlets (also the same as in 1986), \$3.3 billion will be taken in by full-line discounters and the remainder by taken in by catalogers.

Sales per square foot for the industry will rise slightly, but that gain will be easily offset by even lower margins in what has traditionally been a low-margin category.

Disc Cameras

The perfect three-point belly flop performed by the disc camera may have been offset by the very appealing SLR 35mm cameras, which sold over 3.5 million units in 1986 and should continue to sell well through 1987.

Mid-price non-SLR cameras sold about 3.7 million units, a 30 percent gain. The two 35mm categories combined for \$600 million in value at import, which accounts for virtually all 35mm products.

The disc camera format evidently has failed to make an impact with consumers, and has been virtually ignored by the younger, more affluent consumers who drive the photo industry.

Polaroid System

Polaroid's new instant system, its first in 14 years, is expected to drive the instant camera category to its first gain in nearly a decade. Featuring automatic focus and exposure, the system has much the same appeal as the SLR 35mm, and picture quality is roughly equivalent to one-hour processed 35mm film.

Film sales have performed well, particularly as the one-hour processor becomes more common.

Agfa Penetrates Market

Fuji has challenged Kodak for a few crumbs of market share, and apparently has been moderately successful, although a spokesperson for Agfa-Gavert, the European giant now trying to penetrate the U.S. nonprofessional market, said that the Japanese firm "spent a lot of money getting what Kodak had already decided to give them."

Agfa, well-known in professional and technical circles in the United States, is following a piggyback strategy—dual branding with discounters—to get name recognition. It hopes that customers will notice a real difference in quality and become repeat buyers. And, through word of mouth, Agfa hopes to build up the newcomer's sales.

The casual photographer has never before had the variety of sophisticated, idiot-proof equipment available as in the past two years. But even as unit sales rose, mar-

gins started eroding. Most retailers cut back on sku's to concentrate on mid-priced, point-and-shoot models that have become almost omnipresent in U.S. homes.

Therein, of course, lies the rub. Even as prices fall, demand is lagging. Most consumers that want a camera have a camera. And the photo/camera market is mainly aimed at replacement and upgrading.

With that in mind, it's not surprising that analysts are predicting another flat year for the industry. Bright spots appear to be instant camera technology and sophisticated accessories, which have the only strong margins in the field.



Film sales performed well last year as full-liners capitalized on the opportunity to attract repeat business. (DSN photo)



NA—not available
Source: DSN research



Ambassador Card No. 1002B 124K. Inside sentiment: "Thought I'd drop everything to wish you a Happy Birthday!"

ANNUAL REPORT

STATIONERY



Color Craze Bleeds Over Into Stationery Dept.



Stationery sales at discount stores will rise to \$2.4 billion in 1987, an increase from \$2.3 billion last year. (DSN photo)

Nationwide DSN Report

The pastel craze that has hit everything from hair driers to radios, fans and even tool boxes over the past several years came on strong in stationery merchandise during 1986, as several vendors pursued the fashion potential of basic home office and school supplies.

"Last year color made its first major impact on our business and now we're going to jump on the color trend in everything from pens and pencils to covers that wrap around composition books," Bernard Elias, general merchandise manager at Family Dollar, said during a seminar at the Back-to-School show this year. "We plan to look as up-to-date in stationery as we do

in our apparel departments," Elias added.

The importance of color has bled into felt tip marker sales, where thick- and thin-line highlighter sales were up 82 percent through all retail outlets, ringing up a sales total of \$31.74 million across the stationery industry. Regular thick and thin markers were up 39 percent in total sales dollars to \$74.16 million.

Stationery Sales

According to DSN projections, stationery sales at discount stores will rise by \$1 million during 1987 to \$2.4 billion, compared with an estimated volume of \$2.3 billion during 1986, as home office and back-to-school sales edge upward.

Turns and department size are expected to remain constant at 3.5 and 1,875 square feet, respectively. Initial markup on stationery lines are expected to drop slightly to 47 percent from 47.4 percent. Despite this slight decrease, gross margins are projected to hold at the 41.6 percent level during the year.

One of the elements likely to hold initial markup down in the stationery department is due to back-to-school merchandise. The intensified competition that discounters are getting from drugstores, especially from the deep discounters and the one-stop shopping supermarkets, has been taking its toll on back-to-school merchandise volume figures.

Rising Competition

The higher margins earned on fashion-oriented home office equipment will be offset by lowered back-to-school prices in the face of rising competition and costs.

Cost Hikes

It was just a few years ago, in 1984, that costs rose between 15 percent and 20 percent on back-to-school commodities, and yet another year of cost hikes is anticipated for this merchandise.

The cost of filler paper and theme books to the retailer are expected to be about 10 percent higher this year as some manufacturers shift production efforts toward more profitable lines, such as computer paper.

"The whole industry just has to draw the line somewhere," buyer Dennis Lindberg from Omaha, Neb.-based Pamida told DSN earlier this year. "I just couldn't believe it when I saw retailers out there last year willing to sell theme books at 19 cents a piece," Lindberg added.

These cost problems associated with back-to-school merchandise will be an added incentive for buyers to choose their assortments more wisely and merchandise them more effectively this year.

DSN estimates chain merchandisers will succeed, resulting in an increase in sales per square foot to \$157.76 from \$148.26 last year. Sales per store will rise accordingly to \$295,800 on average, from \$278,000 during 1986.

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FOOD MERCHANDISING

FOR NON-FOOD RETAILERS

Summer, 1987

Household products: The four highest tonnage non-edible grocery categories & how nonfood chains have come to appreciate them

Nonfood chains get "trendy: with beverages. Juices and bottled waters now round-out soft drink sections.



On the Trail of Incremental Sales: Grocery manufacturers & nonfood retailers "partner" in building new opportunities



Special Report

Membership Clubs: \$8 billion industry should triple in sales by 1990

How membership clubs use groceries to generate case lot turns and bottom line profits



Food for Thought

Meet the new kid in town: Membership Clubs

5

News Basket

How K mart uses groceries to hype holiday traffic

7

Sami: Category seasonality report

The foods and nonfoods to promote this spring

9

Partners in Profits: Grocery Manufacturers & Non Food Retailers

Today's new partners are working together to generate incremental sales while protecting and expanding market shares

11

Membership Warehouse Clubs: Retail's Most Formidable Competitor

Sales for this new retail segment were up 82% last year to \$8.2 billion. By 1990, analysts estimate there will be over 600 membership clubs with sales in excess of \$21 billion

17

Beverages in Non Food Stores

Mix today includes juice, bottled waters and aseptic packs as well as soft drinks. The goal: build traffic and enhance profits

23

Household products & cleansers

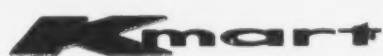
How nonfood chains are turning to the highest tonnage nonedible groceries to lure price conscious, convenience minded shoppers

27

K mart Uses Groceries To Hype Holiday Traffic

Grocery products lend themselves brilliantly to seasonal promotions. Buyers and merchandisers who are planning Thanksgiving promotions now should take a look at K mart's 1986 Thanksgiving circular.

Dry grocery items accounted for 83% of the 12 items on the circular's front page.



Most dominant were an aluminum foil, K mart's own store brand, Ocean Spray cranberry sauce, Libby's pumpkin pie mix, Stove Top stuffing mix and three packages of chocolate bits: Reese's peanut butter cups and Hershey's milk chocolate chips and semi-sweet chocolate chips.

Also on the page were Eagle Snacks Honey Roasted Peanuts, K mart's own paper towels as well as a variety of 20 and 30 gal. trash bags.

Inside the circular, K mart did a spread on clip and save coupons which featured a number of other grocery products including cookies, smoked oysters, egg noodles, candies, plastic tumblers, liquid all-purpose cleaners, laundry detergents and light bulbs.

Managers said their sell throughs on the featured items were "excellent."

The Foods Shoppers Buy The Most

Here's a puzzler for you. The answers are milk and bread. Now what was the question?

Did you say "what are the two most frequently purchased categories in a grocery store"?

Well if you did say that, then you get the brass ring because, according to the latest Point of Purchase Advertising Institute Food Store Shopper Buying Habits study, that is what shoppers do buy most frequently when browsing for groceries.

In the fall of 1986, POPAI did a full scale shopper purchase habit study in 20 markets across the country. Their researchers recorded over 65,000 purchases made by a total of 4,000 food shoppers.

The Food Categories Bought Most Frequently

% of purchases per every 100 shoppers

Milk	33%	Refrigerated orange juice	8%
Packaged bread	25	Ice cream	6
Eggs	14	Bacon	6
Chicken	12	Potato chips	6
Crackers	11	Concentrated orange juice	5
Cookies	10	Hotdogs	5
Ground beef	10	Corn chips	3
Packaged luncheon meats	8	Snack nuts	3

Source: POPAI 1986 Consumer Buying Habits Study

In their preliminary analysis of that data, POPAI found that for every 100 shoppers interviewed during a typical shopping trip, 33 purchased milk, 25 purchased packaged bread, and 14 bought eggs.

Eleven out of every 100 bought crackers, 10 bought cookies, eight bought refrigerated orange juice and packaged luncheon meat.

Six bought ice cream, bacon and potato chips; 5 bought concentrated orange juice and hotdogs, and 3 bought corn chips and snack nuts.

With the exception of chicken and ground beef, which were also mentioned as frequent purchasers, each of the categories cited are normally found today in most chain drug stores while the dry groceries cited are also found in almost every discount and mass merchandise store.

Says Eckerd food buyer Peter Agostinio: "These categories for us are 'opportunistic' additions to our everyday mix. They help us build traffic and they increase the frequency or repeat visits to our stores."

Glad's Million Dollar "Mystery" Promotion

The Glad food storage and trash bag line will be featured this summer in a new movie being released by Dino DeLaurentis Productions.

The movie, called a Million Dollar Mystery, co-stars Glad spokesman Tom Bosley as a man who knows the whereabouts of some \$4 million in hidden booty.

Throughout the course of the movie, various actors find the bulk of the hidden treasure, but at the end of the movie some one million is left unaccounted for.

In an unusual prologue, Bosley reappears on screen after the movie ends and gives the audi-



ence tips on how they can find the missing million.

He tells them to look for clues in packages of Glad products. Consumers who successfully interpret the clues to guess the hiding place of the money will be eligible to compete in a Glad sweepstakes. The grand prize is the mystery million.

Drug, discount and food stores are backing the promotion by allotting endcaps and other in-store display vehicles to the Glad line for the late June/ early July period when the contest should be at its peak. The sweepstakes drawing is in late July.

Best Selling Categories of Spring



The chart below lists the best selling categories in food stores for the months of March, April and May.

The rankings are based on a special Sami study tracking seasonality growth trends by category. The categories that made the list had a base index of at least 110 for the three years ended in May 1986.

Knowing the index makes it easier for food, snack and household supply buyers in drug and mass merchandise stores to identify the categories that will turn the fastest for a planned seasonal promotion.

FOODS AND GROCERIES: BEST SELLERS OF SPRING

(Averaging three year index ranking)

March		April		May	
Foods	Index ranking	Foods	Index ranking	Foods	Index ranking
Packaged candy non-chocolates	256	Soft drink mixes	191	Freezer bars	234
Packaged jellies	181	Iced tea mixes	158	Barbecue sauce	189
Packaged solid chocolate pieces	161	Instant tea	146	Relishes	170
Tartar sauce	146	Barbecue sauce	144	Fruit pectin	169
Diet desserts	144	Freezer bars	143	Iced tea mix	162
Canned salmon	139	Diet desserts	130	Instant tea	161
Fruit rolls & bars	139	Fruit rolls & bars	124	Canned salads	157
Packaged other chocolates	133	Canned pears	121	Pork & beans	146
Dried prunes	127	Dry topping mixes	119	Soft drink mix	146
Diet canned fruit	125	Canned peaches	118	Meat sauce	130
Packaged novelties	121	Canned pineapple	118	Mustard	126
Dry topping mixes	120	Diet canned fruit	117	Diet salad dressings	124
Diet canned vegetables	120	Diet salad dressings	117	Pickles	123
Canned apricots	119	Canned fruit cocktail	116	Pourable salad dressings	123
Ready-to-spread frosting	118	Dried prunes	116	Potato chips & salty snacks	123
Canned peaches	118	Canned beets	116	Catsup	121
Chocolate covered creams	117	Diet canned vegetables	115	Diet canned fruits	120
Diet jams, jellies spreads	117	Canned apricots	115	Spoonable salad dressings	119
Canned pears	117	Frosting mix double layer	113	Meat tenderizers	119
Honey	116	Bubble gum	113	Diet soft drinks	117
Dry toasted items	116	Canned hams/meats	113	Dry topping mix	116
Canned spinach	116	Relishes	113	Bubble gum	116
Canned beets	115	Canned spinach	113	Juice/juice concentrates	116
Cereal meal bars	114	Diet jams, jellies spreads	112	Reg. soft drinks	116
Gelatin desserts	114	Prepared mustard	111	Diet desserts	115
Diet salad dressings	114	Grape juice	111	Single strength juice drinks	114
Canned pineapple	114	Ready-to-spread frostings	110	Fruit rolls & bars	114
Pizza products	114	Hard candies	110	Mayonnaisse	113
Dessert baking mix	114	Gelatin desserts	110		
Nonfoods		Nonfoods		Nonfoods	
Car Care Products	125	Insecticides	226	Charcoal lighters	213
Bath additives	110	Insect repellents	223	Charcoal	212
		Car care products	155	Insect repellents	205
		Charcoal lighters	152	Insecticides	168
		Charcoal	134	Car care products	150
				Paper & plastic plates	140
				Plastic flatware	137
				Paper/plastic cups	122
				Motor oil & car additives	116
				Window cleaners	115
				Paper napkins	110

Source: SAMI Seasonality Study

Membership Warehouse Club Sales Soaring

Sales for the 228 universe of Membership Clubs jumped 82% to \$8 billion in 1986. Edible & nonedible groceries accounted for about 45% of total sales.

Warehouse Clubs, which are competing with drug and discount store chains on grocery retailing, as well as on such traditional categories of merchandising as HBA, sundries, low and high ticket electronics, and apparel, are continuing to show dramatic gains both in store counts and dollar sales.

According to the latest survey done by *Discount Store News*, FM's sister publication, sales for Membership Warehouse Clubs hit \$8.2 billion in 1986, up an amazing 82% over 1985.

The total number of units in existence hit an estimated 228 in 1986, up 66% over the prior year.

For 1987, *Discount Store News* is estimating that dollar sales for all Membership Clubs will hit \$11.6 billion, which will represent an increase of 41% over the prior year.

Stores will climb on estimated 43% to 325 units, *DSN* is estimating.

Membership Clubs: The customer base and the mix

Membership Warehouse Clubs serve a relatively unique mix in the retail marketplace. A hybrid that is half wholesale/half retail, the typical mix of a warehouse club includes edible and nonedible groceries, health and beauty aids, apparel and other softwear, and a variety of hard line items ranging from televisions and stereos through tires and such gadgets as electronic garage door openers.

The customer base is predominantly small businesses with off-the-street customers usually making up about 30% of a typical wholesale club's customer mix.

Margins average about 10%

Sometimes, however, the customer mix can be more in the vicinity of 50% to 50%, half small businesses buying on a cash and carry basis and half individual man/woman in the street type consumers buying by the case load on low- to mid-ticket items and in singles on high ticket items like televisions.



Many warehouse clubs carry large assortments of refrigerated and frozen foods. The mix is on large sizes of the highest consumption categories.

Membership Warehouse Clubs: Sales and Unit Growth (1983 through 1990)

	Sales (billions)	Units
1983	\$1.0	36
1984	2.4	79
1985	4.5	137
1986	8.2E	228E
1987	11.6P	325P
1988	14.2P	400P
1989	17.8P	505P
1990	21.0P	600P

E means estimated. P means Projected
Source: *Discount Store News* Research

Markups in a typical Warehouse Club are typically low to generate turns. Most Clubs say they charge wholesale prices plus a small markup of approximately 5%. Profit margins generally average about 10% overall.

Most Clubs also charge members a fee to join as well as an annual fee to remain a member. Most Clubs also usually insist on cash payments rather than checks or credit cards.

Who's Who in Membership Clubs

The leading chain in the segment is still Price Company, whose founder Sol Price opened the first Membership Club in San Diego, Calif., back in 1976. In 1986, Price Club generated approximately \$2.8 billion in sales from a universe of just 27 stores.

Second place goes to Sam Walton, the founder of Wal-Mart. Walton's four year old chain of Sam's Wholesale Clubs now numbers over 49 stores, responsible for an estimated \$1.6 billion in 1986.

Costco, Seattle, Wash., is third with 1986 sales of \$900 million while fourth and fifth place go to PACE, Denver, Colo., with sales of \$600 million in 1986, and Super Saver,



Price sells food in the warehouse club industry. The average purchase is in case lots, and the average sale is often over \$100.

Who's Who in Membership Warehouse Clubs

(Ten top chains by dollar volume: millions)

Chain/Company	HQ	1986 sales	% chng vs '85	Total Units	% chng vs '85
1. Price Club (Price Company)	San Diego, Ca.	\$2.800	56%	27	13%
2. Sam's Wholesale Club (Wal Mart)	Bentonville, Ark.	1.600	106	49	113
3. Costco	Seattle, Wash.	900	146	37	118
4. PACE	Denver, Colo.	600	60	25	56
5. Super Saver	Shreveport, La.	400	34	20	122
6. B.J.'s Wholesale Club (Zayre Corp.)	Boston, Mass.	350	75	15	36
7. Makro	Cincinnati, Oh.	290	21	4	0
8. Price Savers (Kroger)	Cincinnati, Oh.	200	33	6	20
9. Warehouse Club	Skokie, Ill.	185	108	14	100
10. The Wholesale Club	Indianapolis, Ind.	140	46	11	120

Source: Discount Store News Survey

Shreveport, La., with sales of \$400 million in 1986.

B.J.'s Wholesale Club, a division of Zayre, Boston, was in sixth place in 1986 with sales of \$350 million a year, and Makro, Cincinnati was seventh with sales of \$290 million.

Altogether the 10 leading Wholesale Club chains in 1986 accounted for about 64% of all Membership Club dollar sales. In 1986, these 10 chains generated an estimated total

of \$7.5 billion, all off a universe of just 228 stores.

Sales will hit \$20 billion by 1990

Most Membership Club executives and most analysts who follow the segment believe the total dollar sales will reach \$20 billion by 1990.

Some sources, such as Walter Teninga, President of the \$185 million Warehouse Club chain in Skokie, Ill., think that the estimate of

\$20 billion in annual industry sales by 1990 is even too "conservative."

Fred Windsor, a retail analyst with Alex. Brown & Sons, Baltimore, says that while it is impossible to predict how many Warehouse Clubs the country can ultimately absorb, he does believe that "expansion in this segment will be swift."

Windsor agrees with other analysts that the store universe will probably hit 600 to 700 by 1990.

"There is room in every major city for a number of Membership Warehouse Clubs," says Joseph Nusim, chairman of the Makro Self Service Wholesaler Club based in Cincinnati. Makro, with its four stores, is the seventh highest volume chain in the segment.

"We, as an industry," he says, "have only begun scratching the surface."

What makes Membership Clubs work

The secret to a Membership Club's success, sources say, is the ability to turn a limited inventory of between 3,000 to 3,500 sku's anywhere between 12 and 20 times a year.

The industry's most successful chain, Price Club, boasts turns of between 18 and 25 a year on a mix of about 3,500 sku's.

Like Price Club which generates about 60% of its sales through wholesale customers, the more successful chains are concentrating on targeting their customers mix to small businesses doing a high tonnage cash and carry business rather than to individual consumers doing a cherry picking "stock up" business.

60% to 70% of customers are small businesses

Jeffrey H. Brotman, chairman of Costco, the industry's third highest volume chain, says that 70% of Costco's sales are now generated by wholesale purchases.

"Maybe we're wrong," says Brotman, "but we think we can do a better business by keeping out the casual customer, and by concentrating on a smaller group of more loyal customers instead."

"At one time, we were only generating about 40% of our sales through wholesaler purchases," says John Geisse, chairman of the Wholesale Club in Indianapolis.

"Today, our wholesale business is up to 69% of our sales, and we're working very hard to keep increasing that share."

Membership Clubs Push Groceries

Best sellers are case lots, shrink wrapped packages, large sizes and anything consumable that offers the customer a "value"

Grocery product sales in wholesale clubs are booming.

Both retailers and manufacturers report that sales of snacks, pet foods, dry and packaged groceries, beverages and grocery household items are growing like "crazy" in the \$8 billion dollar Membership Warehouse Club industry.

The majority of the business is being done, say sources, in large size packs or in shrink wraps that are generally merchandised off massive in-store bulk displays.

The selection in a membership club is seldom extensive, but the displays are huge and some categories like snacks get an average of 32 running feet plus extensive exposure on pallets and end caps.

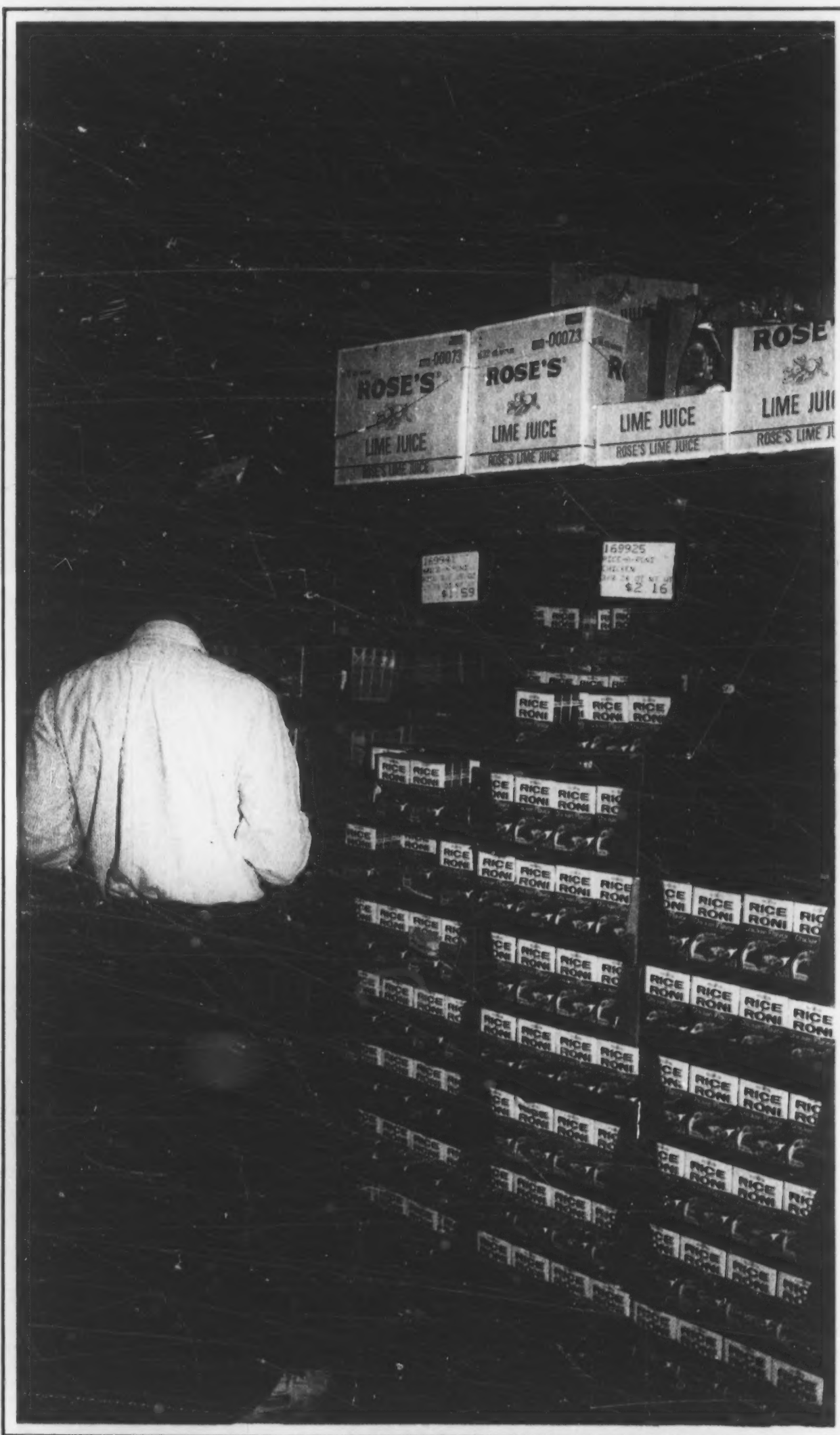
Generally Membership Club stores will only stock grocery items they've acquired at the lowest possible acquisition cost, and when they display these items, they're at the lowest possible competitive price.

Customers like to buy in huge quantities

"When a customer in a Membership Club store buys a snack or a grocery item," says Wrigley's Ron Cox, "they're usually buying full box quantities. That means the sale is usually a high ticket and it usually amounts to someone buying 12 packages at once or 20 or 24 depending on how many items are packed to a case."

"The Membership Warehouse Clubs," says Chris Abernathy, VP of Marketing for Borden's, "are places where people are buying commodities. They are not taking that much business from the traditional food stores, but they may be taking it from the mass merchandiser who tries to compete with the food stores on price."

"If someone is price conscious, there is no better place to buy a grocery item, but these stores are not that convenient yet, and they are more accessible to the small business person than they are to the average consumer so the bulk of their



About half the customers who buy food in a warehouse club are off-the-street consumers while the rest are small business buying in case lots to replenish their own stockrooms.



Some warehouse chains are trying to use their food departments to give customers "extra value." Trial generating strategies are popular.

impact right now seems to be on the smaller wholesalers and rack jobbers."

Most wholesale clubs locate their grocery type products toward the front of the store, in departments that are either close to or adjacent to the checkouts.

Bulk of sales are to small businesses

Between 55% and 66% of all their grocery product sales, sources estimate, are to local, small retail businessmen in their neighborhoods.

One such customer says that he prefers to shop the Membership Clubs whenever possible because on select items they can give him a better discount than he can get from his own traditional suppliers.

"They buy on deal," he says, "and in such massive quantities, that they can give me a better price than my own wholesaler who doesn't always take full advantage of the manufacturers discounts for volume purchases."

"The wholesale clubs are not hurting the traditional food retailers," says one rack jobber who competes with a Price Club in San Die-

go. "They're hurting guys like me. I can't afford to buy hundreds of thousands of dollars of packaged groceries on deal as they can. Consequently I can't offer my customers their low margins. The people who buy from them are my customers out looking for bargains that I can't offer."

Manufacturers court the Membership chains

Most grocery manufacturers are very conscious of the growth potential of this market and most say they are aggressively pursuing this marketplace, primarily by adjusting their marketing programs to accommodate the needs of the Membership Club operators.

At the end of 1986, total sales in the wholesale club industry were about \$8 billion, up from about \$2 billion in 1984. Industry sources estimate that there were about 200 stores that could be classified as Membership Warehouse Clubs in the country in 1986 with their numbers expected to exceed 325 by the end of 1987.

Discount Store News, FM's sister publication, is predicting that total

industry sales will hit \$20 billion by the end of 1990.

With the industry going through such explosive growth, many grocery manufacturers like Borden's, Nabisco, General Mills, etc., either are already customizing marketing programs specifically for this marketplace, or they are thinking of doing so.

Chris Abernathy at Borden's says his company is considering producing a 2-lb. bag of chips for the Membership Clubs plus they're willing to shrink wrap existing package sizes.

"We did the same thing for the mass merchandise stores when we created the Ranch Fries line," he said, "and when we created a canister package for Ranch Fries. The canister sells best in the mass merchandise stores because their shopper tends to buy the bigger sizes."

At Eagle Snacks, VP of Marketing Tim Fleming says his company is not doing any special packaging yet but is "thinking of it. They're pressuring us for shrink wrapped packages and they want to carry our largest sizes."

At Nabisco, Don Marler who is in

charge of all sales into nonfood outlets, says his company is shrink wrapping products for wholesale clubs on request.

Marler says the wholesale clubs are especially hungry for fast moving items that can be shrink wrapped to yield a higher average ticket.

"Ritz crackers, Planter's Peanuts, the Wheat Thin crackers, these are the types of things they're most interested in. They're interested in one set price where they know that if they buy a specific quantity, they can have that price on a constant basis, and not just monthly or for that quarter."

Controlling product freshness still a problem

A few manufacturers, however, who have to worry about the freshness of their product are still shying away from the Membership Club market. One source for Whitman's chocolates said their management was concerned about "maintaining the quality of our products in this market."

"There are so many small retailers involved who are their customers," he said, "that it's difficult for us to control the distribution of our products so we've elected not to distribute there yet. But there is no doubt that it is a dynamic market with a great potential for additional sales growth."

"Food and other grocery product sales in wholesale clubs," says Jim Marx, a salesman with the Pankow broker agency in Chicago, "are growing at the rate of 25% a year and better."

"I think they'll continue to grow this fast for a number of years, primarily because the consumer today is so price conscious."

A few chains play down the role of groceries in their Membership stores, reasoning as California's Save Club's president Victor Barkhordian puts it that watching customers carry doughnuts, cheese and milk to the register can really "cool off the customers making a \$250 purchase."

However, according to *FM*'s research, grocery products, including pet foods, beverages and household chemicals and paper goods, currently account for about 45% of all Membership Club purchases. Some chains like Makro in Cincinnati do better than 55% of their total business in grocery sales.

"Food is an opportunity area for

us," says Makro's chairman Joseph Nusim, "because it brings the non-food customer into our stores."

Jeffrey Zisk, President of American Wholesale Clubs in Plano, Tex., says food is very important to the Membership Club concept.

"It keeps customers coming through your door," Zisk says, "and

it keeps your inventory turning."

Some Membership Club retailers claim they can turn groceries as many as 30 times a year and Zisk credits groceries for the fact that his customers shop his stores about every 14 days.

Groceries, he said, is a key strategy for generating repeat business.



The \$8 billion a year warehouse club industry should soar to \$20 billion a year in annual sales by 1990, industry sources estimate.

Grocery Sales Trends in Membership Warehouse Club Stores (retail sales millions)

Category segment	1982	1985	1986	1987 est
Packaged Groceries (excludes snacks)	\$122	\$1.526	\$2.802	\$4.203
Packaged Alcohol	13	174	327	490
Paper Goods	11	153	288	444
Soaps/Household cleaners	12	157	296	449
Pet Foods	6	81	154	239
Total Sales	164	2.090	3.867	5.825

Source: Malcolm Knapp Associates, New York

Non Food Chains Court Traffic With Household Products

Drug/Discount stores give more space & more features to high tonnage household cleaners & related products

Retail sales in the household cleaning category increased approximately 7% in 1986 to a \$9.9 billion dollar category, according to the Charles H. Kline Company in Fairfield, N.J.

Food stores, which account for approximately 70% to 75% of total household cleaning product sales, generated moderate sales growth of about 3% to 4%.

The more dramatic growth in the category came from increased promotional and everyday sales in non-food outlets such as drug stores, discount stores and membership wholesale club outlets.

Many nonfood retailers report that their sales of household cleaners were up between 10% and 12% in 1986, and some chains like Wal-Mart, Walgreen's, Eckerd, Gold Circle, etc., generated even stronger growth, according to buyers and store managers.

Household products: "viable growth opportunity"

Dave Peterson, Exec VP of Merchandising for Perry Drug stores, describes the household chemicals and laundry detergent category as a "very viable growth category with the potential to do even better for us."

Like many drug chains, Perry is considering giving the category expanded space.

"We often use household chemicals as a draw or a traffic builder," says Peterson, "and it's always easier to promote from within an expanded basic department."

"We often promote chemicals and detergents in our flyers," says People's VP of Advertising Joe Pollard. "They're a big drawing item and they're reasonably profitable."

Discount Stores pioneered the household products segment

Most drug retailers will admit that they are following in the footsteps of the mass merchandise chains like Wal-Mart, K mart, Target and Gold Circle, etc., who began increasing their promotional and ev-



Drug and discount stores are promoting and displaying household products much more frequently today. Buyers say their customers consider such promotions time and money savers.

Growth in Household Cleaner Sales

Years	Dollar Volume (Billions)	% change
1985	\$9.3	5.8%
1986	\$9.9	6.8

Source: Charles H. Kline & Co.

eryday emphasis on chemicals and household products in the late 70's and early 80's.

"They were doing it way before we were," says one drug chain exec-

utive for a company based in the Midwest. "At certain times of the year, you can look at a K mart flyer or a Gold Circle flyer and see a whole page devoted to household grocery products, especially the chemicals, detergents, paper products, plastic and aluminum wraps and food storage and trash bags.

"Part of the draw is in the brand names. Consumers will recognize a name like Tide or Bounty or Glad and if you give them a good discount on the everyday price, you can certainly build great traffic.

"But the other important thing



Drug and discount stores are expanding their household product sections. Their main goal: to give consumers more "value."

Plastic Wraps: "An area of opportunity for nonfood chains"

Wal-Mart is currently expanding space for its plastic wraps and food storage bag category.

A manager for the country's second highest volume mass merchandise chain said the category is being expanded because "plastic wraps and food storage bags are selling well for us. But we don't give the category as much space as food stores do, so we think there may be an opportunity here for even greater sales growth."

The manager said the category was currently growing at an estimated rate of about 25% a year and was yielding everyday margins of about 35%, and promotional margins of about 20%.

According to a source for Glad, which is the No. 1 brand in plastic wraps and trash bags, discount stores like Wal-Mart currently generate about 20% of all plastic wrap and storage bag sales while drug stores generate about 10%.

Sales in drug and discount stores, however, are growing twice as fast as sales in food stores, up an estimated 9% in both outlets in 1986 compared to about a 4% increase in food stores.

According to Glad's estimates, the total category increased about 6% in 1986 to around \$1.8 billion. Sales in food stores alone were about \$1.3 billion in 1986, according to Sami Market Research in New York.

A recent study done by Glad Products also shows that drug and discount stores on average give the category less proportionate space than food stores do.

A spokesman for Glad said the typical food store gives about 40% of its overall plastic wrap and storage bag space to sandwich wraps and food storage bags while drug stores frequently give the category just 29% of their overall space, and discount stores give it 25% of total space.

Both Glad executives and drug and discount store retailers say there is an opportunity for nonfood retailers to increase their sales per square foot in this category if they follow Wal-Mart's lead and expand footage.

Sources for K mart, Eckerd, Gold Circle and several other major chains say they are currently "evaluating" the possible returns on just such an expanded allocation.

The Top Five Highest Dollar Volume Non-Edible Grocery Categories

Product Category	Estimated Dollar Volume in Food Stores (billions)
Heavy Duty Detergents	\$3.1
Toilet Tissues	\$2.1
Disposable Diapers	\$2.0
Paper Towels	\$1.4
Plastic Wraps/ Food Storage Bags	\$1.3

Source: Manufacturer estimates based on Sami Market Research for 1986

about these nonedible grocery categories is that they're profitable, even on promotion. Even when I'm promoting a brand like Tide or Glad, I'm usually able to take a 20% or better gross margin.

"If I were promoting toothpaste or shampoo, in contrast, I'd be going out close to my cost."

Increased manufacturer competition a boon to shoppers & retailers

A K mart manager in Detroit also points out that in the last few years, the manufacturers of household products, in general, have gotten much more competitive with each other, and that as a result there has been a lot of couponing and rebating in the household products category.

"We can feature a Dracket bowl cleaner or a box of Tide or a Pledge furniture polish at close to full everyday retail and still get the consumer to come in because most of these manufacturers are mailing out rebates and coupons offering significant savings," she says.

This particular K mart manager also noted that "Many of the people who make the mops and brooms and other handle products are offering coupons and rebates with \$2 and \$3 or more off their regular everyday price.

"This, of course, makes that category very attractive to us."

Space allocations up about 25% in the last two years

In the past two years, retailers and manufacturers say they estimate that everyday space for household products has increased about 25% on average in drug and discount stores while promotional activity has more than doubled.

Top 10 Brands in Food Stores

1.	Tide
2.	Pampers
3.	Scott
4.	Huggies
5.	Charmin
6.	Glad
7.	Luv's
8.	Northern
9.	G.E. Lightbulbs
10.	Bounty

Source: Manufacturer estimates based on 1986 Sami Market Research

A chain like Gold Circle, for example, features an assortment of household products every week in their flyers while chains like Wal-Mart, K mart, Walgreen's, Eckerd etc., almost always have at least two or three household products including cleaners in their weekly ads.

Buyers say the increased promotional emphasis is very logical considering the dollar size of most household product categories.

Sami's Top Five Highest Dollar Volume Categories

According to SAMI's listing of the five top volume categories in food stores in 1986, household products are in four of the top spots.

Heavy Duty detergents, for example, generated some \$3.1 billion in food store sales in 1986, Sami says, while toilet tissues racked up some \$2.1 billion in sales.

Paper towels did another \$1.4 billion while plastic wraps and bags generated about \$1.3 billion. Taken together, these four household product categories generated about \$7.9 billion in total food store dollar sales in 1986, while disposable diapers, the third highest dollar volume category, tossed in another \$2

billion a year in sales.

Drug and discount store retailers say that giving more visibility to these tonnage categories helps create a "one stop shopping" environment in their stores.

Retailers say they also don't have to go very wide in their assortment of brands in these categories to draw traffic or generate impulse sales. All they need to do is stock the No. 1 or 2 brands in the segment, and shoppers buy "the brand and the price we feature it at."

Why Cleanser Sales are Growing

According to the Charles H. Kline Company, a marketing analysis and research company based in Fairfield, N.J., the household cleansing products category will continue to show moderate, steady growth throughout 1987.

Kline analysts say retailers will continue to see most of the category's growth coming from the soap and detergent segment of cleaners which currently account for about 51% of all household cleaner sales.

According to Kline analyst Elizabeth Donovan, there are several factors fueling the growth of cleansers including the following.

1. Major acquisitions and divestitures

Donovan says the trend today is toward an industry consolidation with the result that the major cleanser companies are aggressively competing against each other for market share.

2. More brand extensions

Donovan says that manufacturers are more likely today to try to retain their competitive edge by extending their strongest brands rather than by introducing new, untested brands.

P & G, Donovan points out, broke a long standing precedent recently by introducing a "flurry" of extensions to Tide in 1985 and 1986. P & G also has new liquid detergents which use the Cheer and Bold brand names.

3. Heightened consumer demand for convenience.

Donovan says the increasing demand for convenient household product items will "continue to encourage product and packaging innovations."

Some of the more recent examples of this trend are P & G's Multi Action Tide sheets, disposable foam sheets containing premeasured amounts of laundry detergent, all fabric bleach and fabric softeners, and Kiwi's Bloo Duck, a liquid toilet bowl cleaner that comes in a package with a spout shaped like a duck's bill. The spout allows the user to apply the cleaner more directly and more neatly.

4. Liquids will remain fastest growing segment in soaps and detergents

Because of their convenience, Donovan thinks that liquids will continue to be the strongest growing segment in detergents. Liquids, she says, accounted for 30% of all detergent sales in 1986, up from 25% in 1985.

5. Changing consumer demographics and buying habits

Donovan says cleanser manufacturers are "increasingly responding to changes in their consumer base through new approaches in promotion and distribution."

She says Mennen's Baby Magic laundry detergent, which is positioned as a cleaner for baby clothes, is a good example of this trend and so are the new light starches which have been developed for and positioned toward younger, working consumers.

Donovan says retailers can expect to see more such product positions in the future, especially toward such demographic groups as single people, older people, teenagers and men, all of whom, she points out, "account for a growing proportion of shopping dollars."